JGPG (2020) 9: 57-72
DOI 10.14666/2194-7759-9-2-005

PAPER

Globalisation and the funding sustainability of the OECD welfare state

Emilija Poposka*

Abstract Without any doubt, the relationship globalisation has with the welfare state size is a very controversial topic, especially after the 80ties, when globalisation took the high road and started drastically changing the world economies, policies and industries. Opening the economies, means opening them up to external pressures, generally and when it comes to wages, taxes and social expenditures. In many OECD countries, the welfare state is perceived as a main cause for the ineffectiveness of the economies, and as a disabler of the postulate of free market. But, these points of view, do not decrease the important role the welfare state actually has. The only thing they can actually change, in this constant fight for higher profits, is to affect the size the welfare states have, both on the sides of the revenues and expenditures. In this article we detect a negative relationship among globalisation and two types of tax revenues: tax on property and tax on payroll in the OECD for the observed period from 1980 to 2017. On the expenditure side, we detect a negative relationship among globalisation and the health expenditures. We as well find a present convergence of the welfare state sizes on the sample of the OECD countries. That is why, in the last part of this article, we overview the convergence in the European Union and the rest of the OECD countries.

Keywords: welfare, government policy, taxation, national government expenditures, globalisation.

JEL Classification: I310, I380, H20, H50, F60

Introduction

The principle goal of this article is to focus on the effect globalisation has on the funding capacity and sustainability of the welfare state through examining the relationship globalisation has with the revenue and expenditure size of the welfare side. To be able to disentangle the very complex relationship among the variables, we initially define the welfare state, we conduct historical overview on the welfare states and their different

Emilia Poposka* (✉)
* Faculty of Social Sciences, University of Ljubljana, Slovenia
E-mail: emilija_poposka24@yahoo.com

historical trajectories. There are many different reasons why the welfare states started existing, such as industrialization, modernization, different social classes, especially after the Great Depression and the Second World War (hereinafter WW2). It is a fact that the welfare state lived its greatest expansion after WW2, and had a pivotal role in the renewal of the world. After the WW2, the world has drastically changed, especially after the technological revolution in the end of the XX century. To be able to assess the impacts globalisation had on the size of the welfare state, we overview the changes on the expenditure and revenue side of the welfare size by country.

Rudra (2002) finds globalisation is positively correlated with the welfare expenditure size in the developed countries, but negatively correlated to the welfare expenditure size in the developing or non-developed countries. Moreover, Brady et al. (2005) claim that globalisation leads to demise of the welfare state under the pressures of the interconnected economies. Rodrik (2015) points out on the challenges international trade imposes on the social insurance. He finds that globalisation is creating pressures on the social welfare mechanisms through the pressures on the corporations through the decreased tax bases and hence tax revenues. A major dilemma Rodrik (2015) pointed out on, is the political legitimacy of free trade even if it erodes the social security and the sustainability of the respective national welfare states. And that is one of the major national political and strategic concerns. On the other hand, Blackmon (2006) finds that the increasing economic interdependence is positively correlated to the increase of social security demand and hence increase of the revenue side of the social welfare. As we can see, literature shows different results about the relationship globalisation has with welfare revenues and welfare expenditures. That is why, in the central part of the article we conduct a panel data analysis of the welfare state size in the OECD countries.

The last part of the article focuses on the future perspectives of the welfare states, given that the economic globalisation is increasing in a faster pace, than the political globalisation. If the world continues being more globalised, it is expected that the welfare states will start looking more alike. From the citizen's perspective, higher taxes and social security contributions are never a popular political choice. But, on the other hand, when unpredictable events occur, such as the latest COVID-19 pandemic, the role of the state is increasingly important, and necessary to maintain the liquidity of the national economies. That is why, it is crucial to maintain stable funding of the welfare states in the times of prosperity, even at the cost of losing political points and popularity.

Defining the welfare state

The biggest expansion of the welfare state through social benefits and contributions occurred in the period from 1950-1970, mainly due to the high level of economic development and the political climates in the respective countries (social democratic governments or conservative centrist governments). Due to the different historical development of the welfare states, they oftentimes solve similar problems in a different way (Baldwin, 1996).

The most used theoretical classification of welfare states is defined by Espring-

Andersen (1990). The classification is based on the welfare state-regimes and incorporates the institutional schemes, political decisions and the historical differences among the states. It consists of the:

- Liberal (provide universal social transfers and modest social-insurance plans with the intention to help low income households),
- Corporatist (focus on maintenance of the different statuses in society, by only focusing on social insurance) and
- Social Democratic (focus on social equality for all, by introducing universal insurance scheme, but founding benefits on income differences) welfare state types.

In addition to these country groups, we detect the: hybrid type of welfare state (Liberal-Corporatist), Central and Eastern European type of welfare states, and Southern European type of welfare states among the OECD countries. The different historical and political features of the OECD welfare states, lead to different expectations about the future of the welfare state. These expectations change in time, due to the different economic circumstances and the global economic performance. Of course, this performance is interconnected to the political decisions within countries and the global political and economic influences.

Welfare state: role and size

The welfare state can be perceived as one big umbrella of social policies and programs whose aim is to decrease income inequality, reduce poverty and social exclusion of individuals. That goals are achieved by management of the countries' fiscal policy (government revenues and expenditures), and income redistribution. That being said, the income redistribution through the social expenditures is perceived through two lenses: 1) As a mechanism for providing public services and 2) As a mechanism for building societies that will be less dependent on social welfare in the future.

Taxes are the main source of governments' revenues and hence the funding of the welfare states and public services. That is why, the taxation policies were an important instrument in achieving the goals of the welfare states. The reforms in the taxation systems incorporated high marginal taxes and high amounts of investment stimulations to enforce the power of the expansive fiscal policies (Swank and Steinmo, 2002).

Tax revenues as % of GDP is an indicator of the size of the welfare state. On Table 1 below, we display the Tax revenues as % of GDP, to be able to detect which countries and which groups of countries have undergone biggest changes on the revenues side. The biggest change can be detected in the Southern group of countries, starting from Greece, where the tax revenue increased by 18 p.p., followed by the rest of the Southern European countries. This is a result of the improvement of the quality of their fiscal policy and control as a result of them joining the European Union. The biggest tax revenues decrease in the observed period occurred in Ireland, as a result of its "tax heaven" policies and strategy. Moreover, the biggest tax revenue as % of GDP in 2017 is detected in France, whereas the lowest is detected in Mexico, a country that fights to create a stable fiscal system based on Liberal premises. On the sample level, we calculate mean and standard deviation both for the first and last year of observation. The average tax revenues as % of GDP increased in the observed time, whereas the standard deviation decreased, signalling a convergence of the sizes of the welfare states in the OECD, when it comes to the revenues side.

Table 1. Changes in Tax revenues as % of GDP in OECD countries

Country	1980/ 1995[1]	2017	Changes
CEE	38.01	35.31	-2.69
Corporatist	37.75	41.52	3.77
Liberal	27.34	27.44	0.10
Liberal-Corporatist	26.80	34.44	7.64
Social Democratic	35.94	38.95	3.01
Southern European	21.10	35.10	14.00
Mean	**31.15**	**35.46**	
St. deviation	**6.43**	**4.37**	

Source: OECD data base.

[1] For the CEE group of countries, we use 1995 as a starting year, given that these countries were not independent in 1980.

The other side of the welfare state size is the side of the government expenditures as a % of GDP. Table 2 below, presents the changes among the total government expenditures on healthcare, pensions, public unemployment support, social benefits to households and social security from the 1980ties or 1995 to 2017.

Table 2. Changes in Government expenditures as % of GDP in the OECD countries

Countries	1980/1995	2017	Changes in p.p.
CEE	36.52	32.91	-3.61
Corporatist	27.27	36.64	9.38
Liberal	13.73	21.58	7.85
Liberal-Corporatist	15.79	34.17	18.39
Social Democratic	13.40	26.52	13.12
Southern European	18.21	32.11	13.90
Mean	**20.82**	**30.66**	
St. deviation	**8.42**	**5.08**	

Source: OECD data base.

The biggest changes in the government expenditures as well occurred in Greece and

Italy, as a result of the immense financial debt problems they had, during the recession of 2008. The big change in South Korea's expenditure by 18 p.p. is a signal of the shift in their fiscal policy. Namely, according to Kuhnle (2004) after the South-Asian financial crisis in 1997, started implementing reforms, which predictably can lead to a welfare state system similar to the social democratic system of the Nordic European countries. The biggest decrease in government expenditures within the observed period occurred in Poland, a transition economy where the social system went through structural changes. The Hungarian economy went through the same reforms and decreased its government expenditures by 7p.p. The countries with the highest amount of government expenditures as % of GDP are: France, United States, Germany, Finland, Italy and Slovenia.

According to an assessment conducted by the European Commission in 2015 about the quality of the welfare states and their capacity on implementing reforms, the French, German and Italian welfare states were graded among the most successful countries when it comes to implementing welfare reforms, and the sustainability of the welfare systems. Italy, on the other hand has a big welfare state expenditure, but its welfare state is characterised as fragmented and functionally biased, especially towards the senior age citizens. Despite the high expenditures, the Italian healthcare system has noted malfunctions in the universality of the system and in the selectivity to target the segments of society, which are in need for state help and low degree of service provision and overall income inequality.

On the whole sample level, we calculate the standard deviation and mean for the first and last observed year. We find that the standard deviation decreased in the case of expenses as well, signalling a welfare state convergence in the segment of welfare expenditures as well. The mean of the sample increased, signalling that the average welfare expenditure size increased as well.

Globalisation and the welfare state size: hypothesis testing

Throughout empirical and theoretical researches we find three different approaches which define the relationship among globalisation and the welfare state:

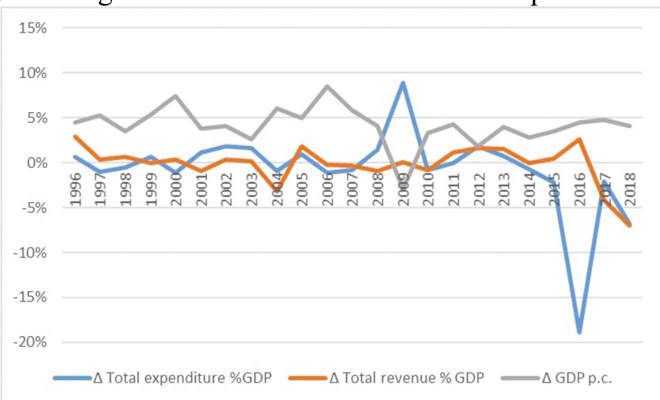
1. According to Scharpf (1994), globalisation changes the structures of the economies imposes pressure on the welfare state as a result of the increased international competition.
2. Garrett (1998) conducted a research on OECD countries in the 80ties and mid-90ties and found that even though globalism and economic interdependence among countries increased, the size of the welfare states did not decrease, which means that globalisation did not impose any pressure on the welfare state. He, as well finds that there was no race to the bottom (decreasing of taxes and other benefits) in the observed period and no impact from globalisation's side on the national fiscal policies.
3. In addition, the revisionist school (Rieger and Leibfried, 2003) claims that the problems with the welfare state are internally created, and that globalisation is a reaction and part of the solution to reform the existing ineffective welfare

states. Their study finds the claims that governments' power decreased with globalisation are not correct, as the importance of governments has increased as a result of the political and economic interdependence among countries.

Why are there concerns that globalisation pressures the welfare state's size? The welfare states redistribute income between generations (pensions) or within the income distribution (between the richer and poorer segments of society). The first challenge for this role is the tax competition (run to the bottom) in open economies. Why is this the case? Firstly, if the national companies are more taxed when working and investing at home, they will shift their production abroad, due to the capital mobility. Secondly, foreign companies will be de-stimulated to invest in countries, in which they will be highly taxed. So, the national economies do not have any additional option, but to decrease national taxes and hence have decreased tax revenues. The decreased tax revenues limit the welfare state in compensating the loosing parties of globalisation: the bottom income parts of the population, the unemployed, the uneducated, the sick, the retired.

Graph 1 demonstrates that the tax revenues and the government expenditures are in an inverse relationship, which is especially visible during the economic crisis in 2008, where there was a drastic increase of the economic expenditure to compensate the most vulnerable segments of society. When the OECD economies started stabilizing after 2013, the government expenditures drastically decreased. If we assume that the current COVID-19 crisis will greatly affect the fall of the GDP rate (estimated fall of global GDP by 2.4%), we can expect an even worse scenario in the tax revenues and their redistribution. Ironically, in the times when the demand for social welfare is biggest, the ability of the welfare state to provide supply of social services is limited.

Graph 1. Changes among the welfare state size and the GDP p.c.



Source: Own work.

To be able to analyse the relationship globalisation has with the welfare state size we set the following hypotheses:

H1: Globalisation is positively correlated to the revenues side of the welfare state;

H2: Globalisation is positively correlated to the expenditures side of the welfare state.

Based on the set hypotheses we develop the following models where i represents country and t represents year.

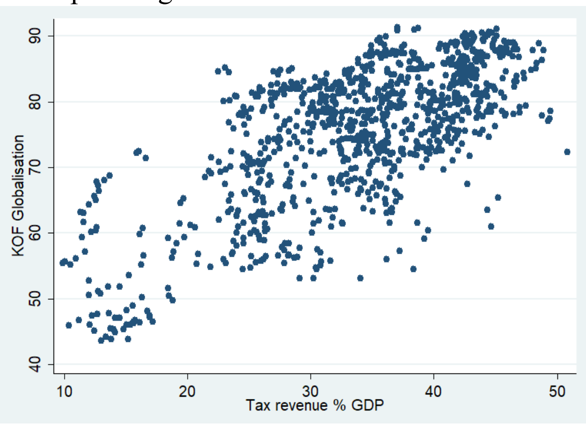
H1: KOF Globalisation index$_{i,t}$ = Tax Revenues $_{i,t}$ + Tax on Property$_{i,t}$ + Tax on Personal Income$_{i,t}$ + Tax on Payroll$_{i,t}$ + Tax on Corporate profit $_{i,t}$ + Social security $_{i,t}$ + Unemployment rate $_{i,t}$ + lnGDP p.c. $_{i,t\,+}$ error term$_{i,t..}$

Globalisation is measured through the Swiss Institute Globalisation index: KOF, which is a synthetically calculated index incorporating the social, political and economic aspects of globalisation. The KOF index is the dependent variable of the model. The tax types and the macroeconomic indicators GDP p.c. and Unemployment rate are independent, explanatory variables in the model.

From Table 4 and Graph 2, we find, that the independent variables explain globalisation by 87%. We apply panel data analysis and after conducting a Hausman test, we find that Random effects model is the suitable model to be used. To be able to test the direction of the Granger causality, we conduct a panel Granger causality test on bi-variable level.

There is a positive statistically significant correlation coefficient between the total tax revenues (proxy variable to the size of the welfare state). That means that the higher the total tax revenues, the more globalized the OECD economies are. For this relationship, the Granger causal relationship is from globalisation to the total tax revenues. This is consistent with Rodrik (1998) who finds that more open economies have bigger government sizes. We find a negative statistically significant relationship among globalisation and the taxes on property and payroll. This means that when the size of these taxes as % of GDP decreases, the globalisation increases. But, to be able to test the “race to the bottom” hypothesis, we must detect a causal (or in our case Granger causal) relationship among globalisation and the negatively correlated tax types directed from globalisation to the tax type. For the relationship among globalisation and tax on property, the direction of the Granger causality is from tax on property to globalisation. For the relationship among globalisation and the taxes on payroll, we find that the direction of the Granger causal relationship is from the taxes on payroll to globalisation.

Graph 2. Relationship among Globalisation and Total tax revenues as % of GDP.



Source: Own work.

Table 4. Results overview of the first hypothesis (Random effects, p value, standard error)

Variable	Random effects	$R^2 = 0.87$	
KOF Globalisation index	**Coefficient**	**P - value**	**St. Err.**
Tax revenues	0.221	0.001	0.06
Tax on property	-1.723	0.000	0.27
Tax on Personal Income	-0.301	0.734	0.09
Tax on Payroll	-0.854	0.003	0.28
Tax on Corporate profits	-0.006	0.959	0.12
Social security contributions	0.196	0.010	0.07
Unemployment rate	0.116	0.003	0.03
lnGDP per capita	14.1	0.000	0.25
Intercept	-72.6	0.000	2.69

Source: Own work.

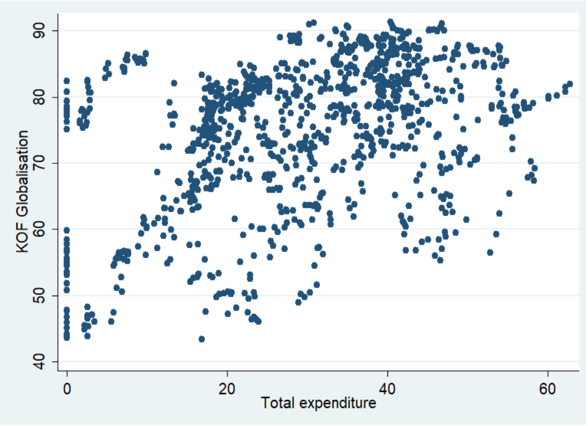
The other function of the welfare states is the redistributive role. In the model below, we test the relationship globalisation has with the expenditure side of the welfare state.

H2: KOF Globalisation index$_{i,t}$ = Health expenditure$_{i,t}$ + Pension spending$_{i,t}$ + Public unemployment support $_{i,t}$ + Social security$_{i,t}$ +ln GDPp.c.$_{i,t}$ + Unemployment rate$_{i,t}$ + error term$_{i,t}$.

We again choose the KOF Globalisation index as a dependent variable. On the side of the explanatory variables we use welfare expenditure variables.

On Graph 3, we display the relationship among Globalisation and the total welfare state expenditures as % of GDP. This relationship is as well positive, which means that the higher the welfare state expenditure are, the more globalised the countries are.

Graph 3. Relationship among Globalisation and Total welfare expenditure as % of GDP



Source: Own work.

We display the H2 model results in the table below. The relationship among Globalisation and the Health care expenditure is negative, and statistically significant. That means that when the health expenditure is decreasing, globalisation is increasing. For the relationship among globalisation and health expenditure, the direction of the Granger causality is from globalisation to health expenditure. This result is especially critical, if we take in consideration the COVID-19 crisis, which requires higher health expenditures. The already fragile and pressured health systems have been put on a test of their sustainability. The rest of the expenditure variables are statistically insignificant.

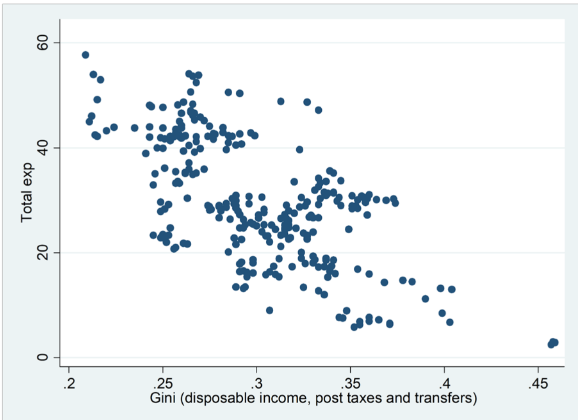
Table 5. Results overview of the second hypothesis (random effects, p-value and standard error)

Variable	Random effects	R^2= 0.87	
KOF Globalisation index	**Coefficient**	**P - value**	**St. Err.**
Health expenditure	-0.833	0.000	0.14
Pension spending	0.106	0.430	0.13
Public Unemployment support	-0.095	0.622	0.19
Social security	0.022	0.847	0.15
lnGDP p.c	17.17	0.000	0.43
Unemployment rate	0.19	0.000	0.04
Intercept	-93	0.000	4.11

Source: Own work.

In addition, it is imperative to emphasize that the relationship among globalisation and the expenditure variables has one important perspective, and that is: how effective the implemented policies are, in reaching the most vulnerable segments of society and hence decrease of inequality. On Graph 4 below, we display the relationship among the total expenditures and the GINI index. We find a negative correlation, meaning that inequality decreases, and welfare expenditures increase at the same time.

Graph 4. Relationship among total expenditures as % of GDP and GINI index



Source: Own work.

From the hypotheses testing, we conclude that there is no general negative relationship among globalisation and taxation or expenditures. But, there is a negative relationship among globalisation and certain types of taxes and social welfare expenditures for the observed period. This behaviour of course, opens lots of questions about the future perspectives of the OECD welfare states, taking in consideration the different historical and structural circumstances and the unpredictable future events and development of the COVID-19 pandemic.

Future perspectives of the OECD welfare states policies

In addition to the historical differences among the welfare states of the OECD countries, political ideologies tend to create differences. According to Stiglitz (2008), the economic globalisation developed faster, then the political globalisation. The main question now is, will the political decisions follow the increased mutual economic interests, and if so, what will the welfare states look like in the future globalized world? Does it mean that they will start resembling a certain type of welfare state that already exists, or will they trace a new future path and form to be able to meet the needs of the citizens in need more efficiently and fairly?

Zaller and Feldman (1992) analyse the ideological responses to the welfare state and find that most American citizens are ambivalent, when it comes to the exactly what kind of welfare state they want and need. In one hand, there is a general support of small governments and liberal markets among the average American citizens, whereas on the other hand there is general solidarity for the people in need. The average American citizen is more likely to follow the liberal-conservative ideology, and the perception of market freedom. The welfare state's role among these voters is totally different, when compared to the roles of some of the European welfare states. Namely, in the Nordic social democratic group of countries, free health care is a basic human right, whereas among the average American voters, it is perceived as interference in the market and limiting the freedom of George (1998) analyses the complex relationship among political ideology, globalisation and the welfare futures in Europe by conducting a research in six countries which are classified in different welfare state types, by interviewing politicians from the main political parties. The main questions were based on the crucial elements of the welfare state: social services, taxes, unemployment and the inability of the states to effectively solve problems. They find that the left oriented governments have become more convergent towards the corporatist welfare state model, but yet, the differences among them and the right governments persist. In addition, the leftist governments are aware of the unpopularity of the tax increases and nowadays are justifying them only if they can find correlation with GDP growth. The general conclusion is that political ideologies and political decisions are converging. The ideological convergence results into actual convergence of the welfare state sizes. According to Schmitt and Starke (2011) the term convergence represents a course of action within which countries, companies and private individuals start resembling and in time the similarity among them increases. They find that there are three reasons for the increased welfare state conversion in the OECD: 1) the increased globalisation, 2) the European integration, especially after the former Southern dictatorships such as Spain (joined in the 80ties) and the Central and Eastern European former communist countries (joined in the 90ties), 3) the structure of the social programs that are being introduced in the OECD countries and 4) the demand for these policies as a result of the economic performance of the countries.

Starke et al. (2008) conducted an analysis of OECD countries for the period from 1980 to the early 2000s. They examined convergence by comparing the changes among policies in the beginning of the observation period and in the end of the observation period. They found a strong convergence impact in the expenditure side of the welfare state size, whereas there was no strong convergence impact on the revenue side of the welfare states.

When it comes to the European Union, the main convergence factor is the European integration. When it comes to the converge future of the European social welfare states, Diamond and Lodge (2013) conducted a survey on European citizens and found that Europeans still prefer the standard welfare systems- as systems that they are used to. The European Commission on the other hand, has introduced the "Social Investment Package "(hereinafter SIP) which has the goal to reorient EU members' strategy to invest where needed, in order to create sustainable welfare states, especially the European Social Fund (hereinafter ESF). According to Morel et al. (2012), this model is a reform to the post-war social systems which leave behind unmet social needs, inequality, working poor and unemployment. The European Commission's strategy was introduced after the crisis, and focuses on the: 1) Modernisation of the social policies as part of the Europe 2020 Strategy by implementing changes in their national social policies by investing in policies as child care, education, health services, labour market policies etc. 2) Simplification of the social systems. 3) Monitoring and support of the reforms. Moreover, to be more effective in achieving those goals, the European Commission persists into planning the EU funds (such as the European Structural and Investment funds) usage with the inclusion of the reforms which are ought to be undertaken. The main idea of these policies according to Palier et al. (2012) is to change the perspective that social policies are an expense, and not an investment into economic and employment growth.

In 2015, the European Commission conducted an assessment on how good member states are implementing these changes in their national economies, based on the regular reporting which is requested from them. The assessment found that EU member states can be grouped in three different clusters, based on their performance when it comes to reforming their welfare states and aligning them with the social investment model. The first cluster consisted of the Nordic countries joined by France, Germany, Austria, Slovenia and Belgium. These are countries already having a strong social investment approach, and it only needs to be further stimulated and reformed. The second cluster of countries are the countries which in general lack a social investment approach to their policies, but have taken on steps to introduce new social policies keeping the investment perspective in mind. This cluster includes: The Liberal countries, some of the southern countries, such as Spain, Portugal, Malta and some of the CEE countries such as Poland and Hungary. And the third cluster of countries consists of the countries which have not taken any steps in including the social investment approach into their political reforms. And this cluster of countries includes the newest countries to join the EU (Bulgaria, Romania and Croatia), the rest of the CEE group of countries, Greece and Italy. The future policy recommendations based on the analysis conducted by Munoz (2018) emphasized the importance of the cooperation among private and public sector, building of strategy to implement the social investment agenda, introducing new political reforms and regulations both for profit and non-profit sectors, introducing policy instruments such as Pay-by-Results, increasing transparency in policies and financial markets and enabling government's involvement continuously. The past of the European countries varies greatly among different country groups, but the Social Investment Package strives to create more converge and effective future social welfare states. Only by creating effective welfare states that are able to recognize even the most vulnerable segments of the society and by creating welfare states that are flexible to the global market changes countries can become "immune" to populism and anti-globalisation tendencies.

It is important to point out that we found traces of convergence in the section of this article, where we calculated the standard deviation of the welfare state size in the OECD countries. Namely, the standard deviation decreased both for the revenues' and the expenditures' in the observed period, signalling that the differences among the variables in the sample are decreasing and the welfare state sizes are becoming more similar with time.

Conclusions

This article focus on two main questions: 1) What is the relationship globalisation has with the social welfare revenues? and 2) What is the relationship globalisation has with the social welfare expenditures? When it comes to the role and size of the welfare states, we find that there is a trend of increase of the welfare states' sizes and at the same time a decrease in the sample standard deviation, displaying a convergence of the welfare states policies. The group with the highest tax revenues as % of GDP is the group of Social Democratic European countries, whereas the smallest tax revenues are noted in the group of non-European Southern economies such as Mexico and Turkey. Greece is the European country with the lowest tax revenues as % of GDP. In addition, when it comes to the expenditure side of the welfare states, there is no specific pattern of the country groups. France, as a corporatist country has the highest amount of welfare expenditures, whereas Mexico, a hybrid country, displays the lowest level of welfare expenditures as % of GDP.

The central part of this article focuses on a panel data analysis, which examines the two aspects of one of the most controversial questions in the literature and that is: Does globalisation impose pressures on the tax revenues ("race to the bottom") and hence the welfare states' expenditures in the form of social platforms and policies to the segments of society in need. We find that there is no race to the bottom of total taxes in the OECD countries and there is no pressure on the total social welfare expenditures. On the contrary, if we compare the revenues and the expenditures in the OECD countries at the beginning of the observation period and now, we find an increase of the welfare state size. This is consistent with Rudra (2002). There is though, a detected negative relationship between globalisation and specific tax types, such as the tax on property and the tax on payroll. Symptomatically, these decreased taxes are generally based on the labour market and hence the price (wage) on the labour market. From this decrease, we can detect another controversial globalisation phenomenon: the pressure on wages in the developed economies. In addition, the tax on property is based on the capital gains due to sales of properties and investments. Given that the OECD markets are open and liberal, and as previously stated in this article, there is an increased capital mobility, it is as well logical that globalisation decreases this specific tax type, to further stimulate the capital mobility. On the expenditure side, we find that globalisation Granger-causes the negative coefficient of the health expenditures as % of GDP.

The last part of this article focuses on the future challenges of the welfare state, and finds the strong convergence of policies which is present among the OECD countries (we empirically detect this by the decreased standard deviation of welfare state revenues and expenditures). We as well point out that the European Union implements the convergence through its Social Investment Program, which aims to totally change the perspectives of the welfare state from being an expense to being an investment for the future. And that is expected to lead to an actual decreased role of the welfare state in due time.

In addition, Milanovic (2019) points out on the pressures migrants impose on the well-developed welfare states' sustainability. He believes that the only solution for this problem in the future is to size down the welfare state's size by reducing taxes and equalisation of endowments. Piketty (2020) finds that the roots of inequality are based on institutions that help sustain the level of inequality. That roots can be easily changed by shocks such as wars and revolutions or in a peaceful manner, such as the one in Sweden. According to the author, if we do not structurally reform the welfare state and hence decrease inequality, populism will become even stronger and start destroying the networks of the global and interconnected economy. The solution he suggests is to introduce the so called participatory socialism, which will replace capitalism through progressive taxation of income and inherited wealth (60%-70%). The tax revenues are to be used as a basic income and capital endowment for every citizen. In the long term, the ownership of capital will be temporary. This solution seems un-implementable, but one thing is for sure: capitalism in its current state, especially after the COVID-19 health crisis is un-sustainable.

And last, nobody sees the importance of the welfare state role, until external circumstances and unforeseen events remind both the citizens and the policy makers of it. That is why it is crucial to build quality institutions, create transparent and goal-oriented social policies and measure their impact on their target groups.

Acknowledgements

I thank the Faculty of Social Sciences Ljubljana, especially dr. Marjan Svetličič for his insightful suggestions through the research process.

References

Autor D, Dorn D, Hanson G, Majlesi, K (2016) Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure. https://econpapers.repec.org/paper/nbrnberwo/22637.htm Accessed 17 February

Basinger S, Hallerberg M (2004) Remodelling the Competition for Capital: How Domestic Politics Erases the Race to the Bottom. The American Political Science Review, 98: 261-276. doi: 10.1017/S0003055404001133

Baldwin P (1990) The Politics of Social Solidarity. Cambridge University Press, Cambridge.

Baldwin P (1996) Can We Define a European Welfare State Model? In: Comparative Welfare Systems. Palgrave Macmillan, London, pp.29-44

Busemeyer R, de la Porte C, Garritzmann J, Pavolini E (2018) The future of the social investment state: politics, policies, and outcomes. Journal of European Public Policy, 25: 801-809. doi: 10.1080/13501763.2017.1402944

Colantone I, Stanig P, (2017) Understanding the Political Economy of the Eurozone Crisis. Annual Review of Political Science. 20: 371-390. doi:10.1146/annurevpolisci-051215-023101

Cousins M (2005) European welfare states: comparative perspectives. SAGE Publications Ltd, London

Diamond, P, Lodge, G (2013) European welfare states after the crisis. https://pdfs.semanticscholar.org/a275/c94c0b79d1eb66b130a41f6f7ccfaa35e015.pdf Accessed 26 January 2020

Dustmann, C, Schönberg, U, Stuhler J (2017) Labor Supply Shocks, Native Wages, and the Adjustment of Local Employment. The Quarterly Journal of Economics. 132: 435–483.

Espring- Andersen G, Gallie D, Hemerijek A, Myles J (2002) Why we need a new welfare state? Oxford University Press, Oxford.

Espring- Andersen G (1990) The Three Worlds of Welfare Capitalism. Princeton University Press, Princeton.

European Commission (2011) Taxation trends in the European Union. Focus on the crisis:

The main impacts on EU tax systems. https://ec.europa.eu/eurostat/documents/3217494/5730669/KS-EU-11-001-EN.PDF/fec0c5ff-e858-481c-904c-c291cf9804b8?version=1.0 Accessed 26 January 2020

European Commission (2015) Policy Roadmap for the implementation of the Social Investment Package.https://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes Accessed 26 January 2020

European Commission (2016) Standard Eurobarometer 86. https://ec.europa.eu/info/business-economy-euro/euro-area/public-opinion-euro_en Accessed 26 January 2020

European Commission (2019) Standard Eurobarometer 86. https://ec.europa.eu/info/business-economy-euro/euro-area/public-opinion-euro_en Accessed 26 January 2020

Feldman S, Zaller J (1992) The Political Culture of Ambivalence: Ideological Responses to the Welfare State. American Journal of Political Science. 36: 268-307. doi: 10.2307/2111433

Flora P, Heidenheimer A J (1981) The Development of Welfare States in Europe and America. Transaction Publishers, New Brunswick.

Foster C, Frieden J (2017) Crisis of trust: Socio-economic determinants of Europeans' confidence in government. European Union Politics. 18: 511–535. doi: 10.1177/1465116517723499

Frieden J (2017) The Politics of the Globalization Backlash: Sources and Implications. https://scholar.harvard.edu/files/jfrieden/files/the_politics_of_the_globalization_backlash.pdf Accessed 26 January 2020

Garrett G (1998) Shrinking states? Globalization and national autonomy in the OECD. Oxford Development Studies, 26:71-9. doi: 10.1080/13600819808424146

George V (1998) Political Ideology, Globalisation and Welfare Futures in Europe. Journal of Social Policy, 27:17-36.

Genschel Ph (2004) Globalisation and the welfare state: A retrospective. https://www.econstor.eu/bitstream/10419/28253/1/497809117.PDF Accessed 26 January 2020

Guillén A M (1999) Pension Reform in Spain (1975–1997): The Role of Organized Labour. http://hdl.handle.net/1814/23571 Accesseed 20 January 2020

Heinö A J (2019) Timbro Authoritarian Populism Index 2019. https://populismindex.com/report/ Accessed 17 February 2020

Hewitt C (1977) The effect of political democracy and social democracy on inequality in industrial societies. American Sociological Review. 42: 450-465. doi:10.2307/2094750

Kautto M, Kvist J (2002) Parallel Trends, Persistent Diversity: Nordic Welfare States in the European and Global Context. Global Social Policy, 2:189–208. doi: 10.1177/1468018102002002741

Korpi W (1980) Social policy strategies and distributional conflict in capitalist democracies. West European Politics. 3: 296–316. doi: 10.1080/01402388008424288

Korpi W, Palme J (1998) The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries. American Sociological Review, 63:661-687. doi: 10.2307/2657333

Koster F (2009) The Welfare State and Globalisation: Down and Out or Too Tough to Die? International Journal of Social Welfare. 18: 153 – 162. doi: 10.1111/j.1468-2397.2008.00571

Katrougalos G S (1996) The South European Welfare Model: the Greek Welfare State, in Search of an Identity. Journal of European Social Policy, 6: 39–60.

Lindgren I, Jansson G (2013) Electronic services in the public sector: A conceptual framework. Government Information Quarterly, 30: 163-172. doi:10.1016/j.giq.2012.10.005

Marx I, Salanauskaite L, Verbist G (2013) The Paradox of Redistribution Revisited:

And That It May Rest in Peace? http://ftp.iza.org/dp7414.pdf Accessed 26 January 2020

Milanovic B (2019) Capitalism, Alone: The Future of the System that Rules the World. The Belknap Press of Harvard University Press, Cambridge

Mishra R (1999) Globalization and the welfare state. Cambridge University Press, Cambridge

Morel N, Palier B (2012) Towards a Social Investment Welfare State? Ideas, Policies and Challenges. Bristol University Press, Bristol

Muńoz de Bustillo R, Antón J I (2010) Health Care Utilization and Immigration in Spain. The European Journal of Health Economic, 11: 487-498. doi: 10.1007/s10198-009-0204-z

Munoz de Bustillo R (2019) Key challenges for the European Welfare States. Joint Research Centre, Seville: European Commission, Seville.

Navarro V, Schmitt J, Astudillo J (2004) Is globalisation undermining the welfare state. Cambridge Journal of Economics 28:133-152. doi: 10.1093/cje/28.1.133

O'Connor J (1973) The Fiscal Crisis of the State. St. Martin's Press, New York

Pampel F, Weiss J (1983) Economic Development, Pension Policies, and the Labor Force Participation of Aged Males: A Cross-national, Longitudinal Approach. American Journal of Sociology. 89: 350-372.

Piketty T (2014) Capital in the Twenty-First Century. Harvard University Press, Cambridge

Piketty T (2020) Capital and Ideology. Harvard University Press, Cambridge

Quadagno J (1988) The Transformation of Old Age Security. University of Chicago Press, Chicago

Rhodes M (1996) Globalization and West European Welfare States: a Critical Review of Recent Debates. Journal of European Social Policy. 6: 305-327. doi: 10.1177/095892879600600403

Rhodes M (1996a) Southern European Welfare States: Identity, Problems and Prospects for Reform. South European Society and Politics, 1: 1-22. doi: 10.1080/13608749608539480

Rhodes M (2001) The Political Economy of Social Pacts: Competitive Corporatism and European Welfare Reform. The New Politics of the Welfare State. Oxford University Press, Oxford, pp165-194

Rieger E, Leibfried S (2003) Limits to Globalization: Welfare States and the World Economy. Polity Press, Cambridge

Rimlinger G (1971) Welfare Policy and Industrialization in Europe, America and Russia. John Wiley, New York

Rodrik D (1998) Has Globalization Gone Too Far?, Challenge, 41:81-94. doi: 10.1080/05775132.1998.11472025

Scharpf F W (2000) The viability of advanced welfare states in the international economy: vulnerabilities and options. Journal of European Public Policy. 7:190-228. doi: 10.1080/135017600343160

Sengoku M (2003) Emerging Eastern European Welfare States: A Variant of the "European" Welfare Model? https://www.semanticscholar.org/paper/Emerging-Eastern-European-Welfare-States-%3A-A-of-the-Manabu/d380e39eb0ef125720b3b690ab3dc6ee5a55b1a5 Accessed 17 February

Skocpol T, Evans P, Rueschemeyer D (1985) Bringing the State Back In. Cambridge University Press, Cambridge

Stiglitz J E (2006) Making Globalization Work. W.W. Norton &Company, New York.

Swank D (2005) Globalisation, Domestic Politics, and Welfare State Retrenchment in Capitalist Democracies. Social Policy and Society. 4:183 - 195. doi: 10.1017/S1474746404002337

Szczerbiak A, Taggart P (2004) Contemporary Euroscepticism in the party systems of the European Union candidate states of Central and Eastern Europe. 43: 1-27. doi : 10.1111/j.1475-6765.2004.00143.x

Weiss L (2003) States in the Global Economy. Bringing domestic institutions back. Cambridge University Press, Cambridge.