WP-00-14

What Government Can Do About Poverty and Inequality: Global Constraints

Benjamin I. Page
Northwestern University
Evanston, IL 60208

James R. Simmons
University of Wisconsin, Oshkosh
Oshkosh, WI 54901

Scott Greer
Northwestern University

Paper prepared for delivery at the annual meeting of the American Political Science Asociation, Washington, D.C., Aug. 31-Sept. 3, 2000

ABSTRACT

It is sometimes argued that economic globalization has made it difficult or impossible for governments to do anything about poverty and inequality, because egalitarian taxes and regulations would discourage work, drive up the cost of goods produced, hobble exports, invite low-wage imports, and provoke capital to flee abroad seeking higher profits. This is said to produce a “race to the bottom” of governments abandoning egalitarian programs.
Our look at the comparative evidence indicates that this race has not, to any great extent, materialized. Welfare states in the social democracies of Northern Europe and other advanced countries have undergone some marginal retrenchment but remain largely intact. And there remains room to augment the much skimpier U.S. welfare state without serious competitive disadvantage.

Our examination of a wide range of U.S. government programs indicates that some are relatively vulnerable to global competitive pressures—i.e., social insurance programs like Social Security, Medicare, and Medicaid or the corporate income tax—though considerably less so than anti-government rhetoric often suggests. Others are much less or not vulnerable at all. Among this group are programs involving investment in the human capital of disadvantaged individuals—i.e., in infant and child health and nutrition, or pre-schooling—that can actually reduce poverty and inequality while helping, rather than hurting, the economy. Several programs designed to provide abundant jobs at good wages—i.e., low-income wage subsidies like the EITC--produce net economic benefits or only small costs, and therefore have little or no vulnerability to global competitive pressures.

In the United States, government programs – especially those intended to combat poverty and inequality – are often criticized as ineffective, inefficient, wasteful, destructive of freedom, and tangled in red tape. Recently a powerful new critique has been added, asserting that a new factor – economic globalization – has made it all the more difficult, perhaps impossible, for governments to do anything at all about poverty or inequality. If they try to do so, the argument goes, the necessary taxes and regulations will simply discourage work, drive up the costs of goods we produce, hobble our exports, invite low-wage imports, and provoke capital to flee abroad where it can get bigger profits free of government interference. According to this logic, any government that tries to resist the "race to the bottom" will impose unbearable costs upon its own economy. When it comes to poverty and inequality, the story goes, governments are now impotent.

Elsewhere (Page and Simmons, 2000) we have argued at length that the familiar old attacks are largely unfounded. U.S. governments, especially the federal government, already do a great deal to combat poverty and inequality. They often do so quite effectively and efficiently, enhancing individuals' freedoms rather than infringing on them, while improving a sense of community and furthering social justice. Indeed, if Americans could summon the political will – that is, if we could overcome anti-egalitarian biases in our political system (especially unequal political participation and the power of money and organized interest groups) it would be possible to do a great deal more about poverty and inequality, without major negative side effects.

Here we focus on the new critique based on economic globalization. We will argue, based on comparative as well as U.S. evidence, that the spectre of globalization has been greatly exaggerated. Governments' movement toward the bottom, if it is occurring at all, looks more like a reluctant walk than a race. It does not threaten altogether to undo anti-poverty or egalitarian policies any time in the foreseeable future. Moreover, to the extent that such a race is occurring, there exist political remedies – most notably through international treaties and agreements – that could dampen the competitive pressure. Perhaps most important, we argue – based upon our examination of a wide range of U.S. government policies, from Social Security to Food Stamps, taxes, macroeconomic policies, education, international trade agreements, and even birth control and prisons – that egalitarian policies differ sharply among themselves in their vulnerability to global competitive pressures. Some do in fact impose substantial economic costs, but others do not. Some programs can actually enhance economic productivity and growth while reducing inequalities.

The Spectre of Economic Globalization

"Globalization" means different things to different people. We intend the term as a shorthand for the greatly increased cross-national mobility of goods, capital, and workers. That is, to us economic globalization means increasingly free international trade, as a result of lower economic barriers (decreased tariffs, quotas, and other regulations), lowered political barriers

(most notably the opening of China and the former Soviet Union to Western trade), and lower transportation and communication costs. It also means increasingly free mobility of capital among countries -- easier investment (or disinvestment) in foreign currencies, financial instruments, and factories – as a result of similar economic and political liberalization as well as the increasingly easy electronic transfer of funds. Finally, economic globalization encompasses economics-related immigration, the movement of workers across national borders in pursuit of higher wages.

It is neither a novel nor a controversial proposition that, over recent decades, economic globalization has advanced greatly, regaining and even surpassing the levels it attained in the years just before World War One (Boyer 1996). The fall of communism in Europe, the opening of China, the extensive cutting of tariffs and trade barriers (through GATT, the WTO, and regional agreements like the EU and NAFTA), financial liberalization, and faster and cheaper transportation and communication have all moved us much closer to the existence of a single world market (Dunkley 2000). Increasingly, goods and capital – if not always workers – can freely move across national borders. This trend has been manifested in greatly increased international financial flows and (to a somewhat lesser extent) increased trade flows. Note, however, that the impacts of globalization that concern us neither require nor are necessarily well measured by actual flows of goods or money; they can occur through *anticipation* of *potential* movement. That is, workers' wage levels and government policies may be affected by anticipated reactions to increased economic globalization, even when actual trade and investment flows do not increase.

Nor is there much controversy over the proposition that one or more aspects of increased economic globalization have substantially increased wage inequality in advanced industrial countries. The same changes that have been trumpeted as producing increased wealth and higher gross national products have at the same time greatly weakened the standing of low-wage workers relative to high-wage winners and the owners of capital. Arguably, in fact, since about 1974 even the *absolute levels* of wages for low-wage workers in the United States and some other countries may have declined, with only part of that loss made up in the economic boom of the late 1990s (Mishel, Bernstein and Schmitt, 1999; see Pollin 2000).

To be sure, some classical theories of international trade maintain that free trade *alone*, if capital and workers are immobile, may not lead to the "factor price equalization" that tends to drive wages in high-wage countries done to the levels of low-wage countries. (Other theories maintain that trade alone will do it. See Wong [1995], Stolper and Samuelson [1941].) Similarly, some students of immigration have maintained that the entry of low-wage workers from abroad – at least at the modest levels permitted by the United States – has not greatly lowered the wages of U.S. workers (Abowd and Freeman 1991). (Again, there is some disagreement about this.)

When several elements of economic globalization work together, however – as of course they do in the real world – both theory and data agree that relatively low-wage workers in advanced countries are likely to suffer relative to their high-wage compatriots. Imports of cheap goods from low-wage countries undercut the ability of U.S. workers to get high wages for making the same goods. This decline in demand for labor tends to reverberate through the rest of the economy as well -- even if other jobs (which often require different qualifications) are

created by trade. The immigration of low-wage workers undercuts wages of U.S. workers, especially in service industries. And perhaps most profoundly of all, capital mobility means that if U.S. workers insist upon high wages, their employers can close the factory and flee abroad. The mere threat of capital flight is often sufficient to force workers to settle for lower wages.

Thus there can be little doubt that ongoing economic globalization has contributed to the "inequality express" that has brought increasingly unequal wages and incomes (see Bluestone, 1994.) Questions include just how big this effect has been, compared (for example) with the impact of technological changes that advantage high-skill workers and disadvantage those with fewer information-age skills; just how far and how fast it can be expected to proceed; and – most important – whether it is inevitable or is confined to a few countries with special characteristics like the United States and the United Kingdom.

If global pressures have been proceeding only slowly, the spectre of American workers' wages being quickly driven down to the 40- or 50-cents-per-hour of workers in China and India is likely to be misleading; instead, many workers abroad are likely to see their wages rise and gradually approach U.S. levels. The process does in fact appear to be slower than many once anticipated. It takes time to build factories abroad, and the costs of doing so (often including costs stemming from corruption, weak legal systems, and lack of economic and political stability) are sufficiently high that the attractiveness of low wage rates is often blunted. Furthermore, many industries (especially those using just-in-time techniques) value proximity to their markets and customers, while service industries often *must* have such proximity. World trade is highly concentrated between *rich* countries, and the trade share of poor countries, still primarily limited to raw materials exports, has been declining for decades (Wade 1996, 67-68). In short, globalization probably does tend to increase wage inequality in advanced countries, but not to the devastating extent that was once feared.

Moreover, the sharpest increases in inequality do indeed appear to be confined to a few countries like the United States and the United Kingdom (Esping-Andersen 1999, 99-103), where labor market policies are less friendly to workers and where labor operates under "different rules" (Freeman 1994). Some of the richest and most productive countries in the world, thriving exporters such as Denmark, the Netherlands, Austria, and France, have rather rigid economies and extensive welfare states. Their elaborate retraining programs and industrial regulations have apparently been responsible for much of their success in producing quality products for global markets (Streeck 1997a).

The alleged *political* impact of globalization – the extent to which it constrains governments from dealing with poverty and inequality – is of course closely linked with the economic effects. The point is that globalization supposedly increases the costs of egalitarian policies, by opening up every country to pressure from non-egalitarian and low-wage competitors. Egalitarian programs are said to lower domestic production, increase production costs, weaken exports, increase vulnerability to cheap imports, drive money and factories abroad, and so forth, so that rational governments will desist from any such costly efforts. Thus anything that limits the anti-egalitarian economic impacts of globalization – such as the slowness of movement toward an equal-factor-price international equilibrium – is likely to limit the political impact as well.

But that is not the whole story. For one thing, the alleged political constraints depend upon a particular, rather narrow, sort of "rational" behavior by governments: namely, pursuit of maximum levels of economic production and consumption, regardless of anything else. But it is possible that governments, particularly democratic governments, may cherish other values as well, including equality. They may be willing to pay some price in terms of economic production for the sake of more equal distribution. Too simple a model of government behavior may lead us astray. The only way to find out how constrained governments are is to observe what they actually do.

Furthermore, as the examples of Denmark, the Netherlands and other countries suggest, there is no good reason to assume that there exists only a single, uniform, sort of egalitarian policy that has immutably negative economic effects. Surely different sorts of policies vary in their economic impact. Perhaps some may enhance, rather than restrict, productivity and economic growth. If so, governments could pursue them without fearing the constraints of globalization at all.

Finally, there may exist certain sorts of policies – perhaps enforced through international treaties and agreements – that may regulate *all* countries to egalitarian effect and thereby undermine the very competitive logic that is said to energize a "race to the bottom."

For all these reasons, empirical examination of nations' behavior may indicate that economic globalization does not have such a severe impact upon egalitarian policies. Globalization may provide a menu of constraints and opportunities, rather than an overwhelmingly negative force that squeezes all egalitarian policies. Scrutiny of alternative policies may reveal that some are altogether immune to global pressures and that others can actually counteract those pressures.

How Tightly Does Globalization Pinch Governments?

If anybody could combine economic vigor with egalitarian societies and activist governments, it would seem to be the social democracies of Northern Europe. But by the mid-1990s, some students of European welfare states were beginning to fear that the end was near. European employers were bemoaning their high labor costs relative to low-wage developing countries that out-competed their exports and flooded domestic markets with low-cost imports. Employer offensives had succeeded in restraining wages and attacking the systems of centralized wage bargaining that had been the key to egalitarian wage structures, while press and politicians alike increasingly blamed the welfare state and labor market regulation for persistently high unemployment levels. The pressure extended to egalitarian government policies (some of which raised effective wage costs through payroll and other taxes) as well as direct taxes which were blamed for stifling entrepreneurship and demand, thereby condemning Europe to the status of an "industrial museum." Set next to the booming American economy of recent years, Europe's performance seemed to be that of a coddled old man out of touch with a transformed world.

Retrenchment rhetoric was heard everywhere. Without retrenchment, it seemed, Europe would be unable to solve its persistent unemployment problems or enter the productive new information economy. Conservative governments swept into power in most countries, while even such old socialists as France's President Mitterrand or Spain's Felipe Gonzalez, after finding their Keynesian strategies undone by international currency markets, pioneered "supply-side socialisms" barely distinguishable from standard conservative nostrums. The project of European integration itself, with its tough requirements for monetary union and its open trading area, legally and economically limited the ability of governments to put resources into egalitarian social programs. As a result, not only media figures but academic observers began to conclude that the welfare state was perishing in the fact of global competition.

Sweden had for decades been hailed as the model of a third-way, humane capitalism, and its record of extraordinarily low unemployment, well-funded welfare provisions, admirable social services and remarkable industrial productivity all made it seem a model worth emulating. It was thus quite disturbing for many when the Swedish model began to come apart at the seams. An employers' offensive undid the centralized labor markets that had kept down wage inequality (Pontusson and Swenson 1996). Unemployment shot up. A conservative government began to cut back the welfare state, while entering the European Union and adopting the harsh monetary policies required to survive in an integrated European economy. During this crisis period it seemed that Sweden was on the road to becoming just another high-unemployment European state, destined to slowly degrade its welfare regime and converge on a tough, inegalitarian model in an effort to cope with the high unemployment of a sclerotic economy (Stephens 1996, Iversen 2000).

Germany was still in the early 1990s being touted as a rival and an alternative to American capitalism. An industrial success, export superpower, and home of one of the world's best-off populations, its quality-oriented manufacturing economy appeared to provide an admirable model. But by the end of the decade, with unemployment levels surpassing those of the Weimar Republic and economic growth anemic, Germans, too, began to speak of a crisis in their model. Employers began to toy with a Swedish-style attack on the structures of labor markets. Government efforts to impose pension reform, cut back the welfare state, and restructure labor markets ran into powerful social contestation, and Germany appeared to be in danger of becoming a divided society of pampered insiders and unemployed outsiders.

Virtually every other European state retrenched. Italy made massive cutbacks in its corrupt transfer payments system. The Netherlands used social pacts to commit state, firms, and unions to more liberal labor markets and less generous social benefits. France began to sell off state-owned enterprises and its government provoked a massive strike and talk of crisis in 1995 with its efforts to reduce public sector wages. And as went policies, so went parties: Social Democrats and even Communists across the continent began to explicitly embrace markets and speak the increasingly global language of encouraging entrepreneurship and discouraging "dependency." Tony Blair's "New Labour" swept into office and ratified the Thatcherite legacy of skimpy social programs and a low-skill, low-wage economy, but even the former Italian Communists and German Social Democrats fell into the reformist line. "Reform" increasingly seemed to mean universal welfare state cutbacks.

In the United States, too, with its much more limited welfare state, the trend seemed to be toward even more retrenchment. Reagan-era tax and benefit cuts had not been fully restored when the 1994 Congressional elections brought to power the Gingrich-led faction of Republicans apparently determined to shrink government further and to erase any semblance of redistributive or egalitarian programs. One of the present authors (Page, 1997), among others, concluded that U.S. workers were in serious trouble and could not expect help from government.

More recently, however, it has become clear that the retrenchment of welfare states is very far from complete, and that announcements of the end of egalitarian government policies were much exaggerated. Moreover, it now appears that some of the past cuts in such policies proceeded from causes other than globalization. With respect to Scandinavia, for example, Huber and Stephens (1998) and others (e.g., Godley 2000) have argued that errors in macroeconomic policies, rather than global pressures, caused most of the trouble. An unsustainable boom in late-1980s Sweden, fuelled by low interest rates, predictably led to a crash as wages began to exceed productivity and loans went bad – a fate also suffered by John Major's Britain, no model social democracy. Sweden also fails to exemplify global pressures upon the welfare state because the Swedish economy in the 1980s and 1990s had become increasingly *sheltered* from the world economy (Weiss 1998).

In Germany, the tremendous burden of integrating inefficient plants and enterprises in the former East Germany, together with refusal to let wage rates fall accordingly in the East, has contributed more to unemployment than have globalizing forces (Streeck 1997b). Germany's non-accomodating macroeconomic policy – imposed on the rest of Europe by the run-up to monetary union – dictated high interest rates and slowed growth. In Germany and most of the advanced world, demographic factors – an aging population with increased pension needs and fewer workers to support them – have also played an important part in pressures to cut back. Meanwhile, the growth of a "post-industrial" service economy is everywhere traumatic, as workers move from declining manufacturing industries into lower-productivity service industries. The pain in the United States was concentrated in the early 1980s Rust-Belt recession and that decade's "urban crisis"; the pain in Europe has in large part been spread across the 1990s. Both places now face the difficulties of low-productivity service sectors that change the challenges facing welfare states (Iversen and Wren 1998; Esping-Andersen 1999). These problems are real, but they are mostly distinct from global competitive pressures.

And in the United States and elsewhere, ordinary economic recessions (that of 1990-91, for example) were also important in economic slowdowns and political retrenchments. The Gingrich "revolution" hit strong public resistance very quickly, and, as the U.S. economy boomed in the late 1990s, it faded away almost entirely.

It is probably still too early to assess systematically just how much constraining effect globalization has or has not had upon governments, but the evidence to date suggests a surprisingly limited impact. In Europe (apart from Britain), welfare states have only been marginally cut back: almost every social democratic party retooled and returned to power promising to mitigate inequality and invest in skills (Kitschelt 1994, Boix 1998). Given the impressive public support for welfare measures, combat over solving the unemployment problem shifted to labor market structures, and even those have seen remarkably little change. Distracted

by the spectacular events in Swedish labor market organization, some observers failed to notice the variations elsewhere and the prevalence of incrementalism. Some scholars have even argued that globalization and/or the technological revolution have led to *increased* egalitarian programs, by increasing the need for them (Garrett 1998; Iversen and Cusack 2000).

Now that the dust has settled, it is clear that the retrenchments that have occurred are quite limited. In no country have the major social programs – old age pensions, public education, medical insurance, support for the poor, and the like – been abolished or substantially curtailed. The pattern seems to be for the liberal Anglo-American countries, which already had the weakest welfare states (Esping-Andersen 1990), to retrench the most. Yet our examination of a wide range of policies in the United States (Page and Simmons 2000) indicates that even here, a good many egalitarian programs are going forward vigorously and have resisted any globalization-induced pressures for cutbacks. As Paul Pierson argued some time ago (1996), even in the Anglo-American countries it has been politically very difficult to abolish or curtail such programs, not least because majorities of people who once enjoy the benefits are reluctant to give them up.

Political struggles over these matters continue, but the Social Democracies and Christian Democracies still maintain welfare states that are the envy of progressive Americans. Few would now predict their demise any time in the foreseeable future. Instead, they have tended to develop new strategies, focusing on education, investments in human capital, and other productivity-enhancing egalitarian programs.

By the same token, it has become clear – and this is a major point of our own research – that different programs vary quite markedly in how vulnerable they are to global pressures. Some may be quite vulnerable, but others not at all. In order to assess the long-term impact of economic globalization upon governmental efforts to deal with poverty and inequality, we must disaggregate programs and pay attention to the details.

Which Sorts of Policies are Vulnerable?

Consider two different types of U.S. policies in the general area of jobs and wages: the Earned Income Tax Credit (EITC), and unemployment insurance. The EITC subsidizes the wages of low-income workers by means of a refundable credit – obtained by filing an income tax form – that adds some 30% to any wages that are earned over a certain low range of income. (The total amount of the credit stays constant over a slightly higher range and then is phased out.) In contrast, unemployment insurance (UI), a rather skimpy and variable state-run program, makes modest payments, for a limited period, to certain classes of employees who lose their jobs for reasons beyond their control.

UI and the EITC are both progressive programs; both tend to benefit lower-income citizens (though in fact UI is skewed against many of the poorest Americans, who have only part-time or non-covered jobs or no jobs at all). Both have egalitarian effects, raising the incomes of some people at the bottom of the scale while being paid for by – subtracting a bit from the incomes of – higher-income people (though in fact UI is mostly paid for by medium-

wage workers; it smoothes out such workers' incomes rather than increasing them on the average.) In principle, at least, it should be possible to design EITC and UI programs that have identical equalizing effects upon the distribution of income.

But in other respects these two programs may be quite different from each other. The EITC subsidizes working, while UI subsidizes non-working. To put it another way, the EITC provides material incentives (not, to be sure, the only relevant incentives) to work, while UI – even though hedged about with safeguards to cover only those who temporarily *cannot* work – provides some material incentives not to work. To some slight extent, at least, the existing EITC and UI programs probably have opposite effects, respectively encouraging or discouraging people from working more and working harder. Moreover, the EITC but not UI encourages employers to create jobs for lower-skill workers.

It is not easy to estimate precisely how big these effects are; econometric studies that attempt to do so are plagued by all the usual problems of non-experimental design, imperfect data, inexact specification, and the like. But it takes only the simplest economic theory – or just common sense – to see the general direction of the effects. If low-wage earners are paid more for every bit of work they do, they are likely to work somewhat more; but if they receive increased benefits for not working, they are likely to work somewhat less. At the extreme, if we expanded such programs very generously in order to achieve a major redistribution of income, they might have dramatically different effects upon economic production. The EITC might increase national production significantly, while UI might decrease it. The logic of economic globalization therefore says that UI programs can be very costly to a country (Germany, for example, is currently paying high unemployment insurance costs), while an EITC can be much less costly or even lead to a net economic gain. In the long run, then, the pressures of global competition should constrain unemployment insurance far more than they constrain EITC-type wage subsidies.

In the course of our examination of many U.S. government policies related to poverty and inequality, we have made similar assessments of the relative vulnerability of each program to global competitive pressures. We have not attempted to come up with a quantitative measure of vulnerability; program effects are too complex and too uncertain for that. In effect, however, we have performed an informal economic cost-benefit analysis on each program, setting aside redistributional effects for the moment and inquiring only into its net costs and benefits to the economy. We have considered any likely losses or gains in national economic production, based on the programs' effects on production costs and their provisions of incentives or disincentives to work, to save, and to invest, as well as the likelihood of responses to such incentives (for example, how easily individuals or firms can evade a particular tax or react to a particular regulation by transferring activities abroad.)

In most cases we have taken existing U.S. government policies -- both their specific provisions and their current magnitude – as the benchmark. We focus on the likely *marginal* economic cost of small increases in each program, as a guide to which programs might be expanded at the lowest cost and with the least vulnerability to global pressures. (We will sometimes also note *total* current costs: certain existing programs may involve relatively large economic losses for each dollar spent, but may be quite small in over-all magnitude so that the

specific purposes they serve may easily justify the economic costs.) In addition, we consider certain programs (*e.g.*, universal health insurance) that are quite different from current U.S. policy. And we will comment on some ways in which current programs might be modified to reduce negative side-effects and to become less vulnerable to global pressures.

Although our characterizations of specific programs draw upon the available studies of their effects by labor economists and others (most of the relevant citations are given in Page and Simmons 2000 rather than here), our comments are not intended to be precise or definitive. They are offered in a tentative spirit, to argue that there exist major differences among programs and to encourage more conclusive research concerning exactly what those differences are. Some of our findings are summarized in Table 1, in which programs are grouped by general type – Education and Human Capital, Jobs and Wages, Social Insurance and Safety Nets, and Progressive Taxes – and are located in one of four columns indicating their relative vulnerability or invulnerability to global pressures.

(INSERT TABLE 1 ABOUT HERE)

Social Insurance. Many of the most important egalitarian programs in the United States can be described as offering *social insurance*: that is, widely enjoyed – ideally, universal – government-provided protection against harms or misfortunes that are largely or entirely beyond the control of individuals. Such harms or misfortunes include injury and disease, disability, involuntary unemployment, and old age. Typically, these programs require contributions (payroll taxes) from people during their working lives, which are used to pay benefits to those who suffer from injury or disease or are no longer able to work.

Since social insurance programs are intended to cover a broad range of the population (ideally, *everyone*) they are often seen as "middle class" programs. Indeed, most of the beneficiaries are – or previously were – members of the middle class, and the biggest effect of such programs is to smooth out individuals' incomes over their life-cycles and across unpreventable misfortunes, rather than to equalize lifetime incomes at the top and bottom of the income scale. Still, these programs often have substantial redistributive effects, not only in the obvious, annual-income sense (without social insurance, some workers with temporary but severe injuries might well starve), but also in terms of lifetime incomes. Such programs as Social Security's Old Age (OA) insurance are designed to give low-income people proportionally more support than people of higher income, and Disability Insurance (DI) for people disabled early in life can raise them from a possible lifetime of penury.

In the United States, prominent social insurance programs include the cluster of Old Age, Survivors, and Disability Insurance (OASDI), loosely known as "Social Security"; Medicare for the aged; Unemployment Insurance; and, we maintain, also Medicaid – originally intended only for the very poor, but increasingly used to provide nursing home and other long-term care for middle-class people who would otherwise become "medically indigent." These are big programs, especially Social Security and Medicare, which account for approximately 23% and 12%, respectively, of total federal outlays. By our calculation, all U.S. social insurance programs, taken together, constitute more than half of the entire federal budget: approximately 54%, far more than the roughly 16% that goes to the military or the 12% in net interest

payments, let alone the small amounts that go to means-tested programs for the poor (Page and Simmons 2000, Chap. 4, esp. pp. 77-78.)

How vulnerable are such programs to the pressures of global economic competition? Certainly they have been subjected to powerful political attacks and abundant negative rhetoric. This is understandable, given their great size; anyone who wants to shrink the federal budget is not going to get very far without touching social insurance programs. Thus we have been told, off and on for at least twenty years, that Social Security is in deep financial trouble, that it faces "bankruptcy" and must be drastically curtailed, "privatized," or abolished. (The latest version of this attack also promotes the anti-communitarian idea that some current workers could get higher returns for themselves if their payroll taxes were diverted to their own private accounts rather than funding social insurance for the current retirees, survivors and disabled people to whom benefits have been promised.) Particularly in the face of global competition, it is said, we "cannot afford" to guarantee good benefits for our elderly; presumably any nation that does so, over the long term, will fall victim to low-cost competition from nations that do not.

The reality is more complicated. There is a germ of truth to the argument: the payroll taxes that fund these program do indeed raise effective wage costs. To guarantee minimum incomes for the retired (for example) is indeed to spend the money on consumption rather than production. And to the extent that such guarantees encourage earlier retirement and reduce work efforts, the economic losses are real. (Alleged reductions in personal savings have less clear effects, especially insofar as they are offset by public, governmental savings.) But the work disincentive effects are much weaker than was once thought – the same is true of savings effects – and they can be counteracted by such measures as exempting the first few thousand dollars of old people's of earnings from income taxation, or by further subsidizing them along the lines of the EITC. (Moves to exempt *all* of old people's earnings from taxes or from Social Security benefit cuts, of course, are more likely to give windfalls to wealthy old people than to encourage work. For a useful response to attacks on Social Security, which also notes how easily demography-induced revenue shortfalls can be made up by such measures as removing the regressive "cap" on earnings subject to payroll taxes, see Baker and Weisbrot 1999.)

Moreover, those who groan about the huge cost of retirement pensions often neglect to spell out exactly what they expect would happen in the absence of Social Security's guarantees. Based on historical experience, we should certainly not assume that everyone would provide comfortably for his or her own retirement. Even setting aside improvidence or hopes to free ride on later charity, many people simply *cannot* squeeze their meager current consumption enough to accumulate reserves for the future. Absent Social Security's Old Age and Survivors Insurance (OASI) program, there can be little doubt that many elderly Americans would find themselves destitute, as many did before the program was instituted and expanded. In some cases their children would take up the slack, but this would amount to a capriciously-applied tax on some but not all working people. In other cases, private or public charity would take over. But in none of these cases would the United States as a whole avoid spending the money, in one way or another. Actually to "save" the amounts we currently spend to provide a minimal guaranteed income to old people, would be economically and political infeasible, as well as (in our opinion) morally offensive.

This judgment is buttressed by the observation that *no* advanced country has in fact seriously considered abolishing its public pension program. Global competition is not likely to pinch very tightly if no advanced country is willing to engage in this particular race to the bottom. Even in the United States, efforts at privatization – though still harmful to the program – have pulled back and focused, at least initially, on limited, *partial* privatization. And there are indications that, as people become aware of such drawbacks as the enormous administrative costs of small, flexible accounts (costs that could eat up as much as 45% of the contributions), as well as the loss of survivors' and disability benefits and the near-certain removal from near-term retirees of benefits to which they were told they were entitled – may well undermine the political push for even partial privatization. Instead, it is quite possible that we will move toward subsidized, supplemental – rather than replacement – retirement accounts.

Taking all these factors into account, we see the OASI as exacting marginal economic costs that are significant and larger than those of a number of other programs, particularly programs for investment in human capital and the provision of jobs at good wages. Substantial increases in Social Security benefits would probably entail global competitive disadvantages. Thus OASI is located in a relatively vulnerable column of Table 1. Yet these costs are much smaller than is often claimed, and it certainly does not follow that global pressures will require that current benefit levels be cut.

Much of the same logic applies to Social Security's Disability Insurance (DI). DI, too, involves "consumption" expenditures – money spent for people to live on, rather than rewarding them for work. DI probably has weaker work and savings disincentive effects at the margin than OASI does, because many of the severely disabled do not have the option of working. Some can work, however. And since there is always room for dispute over who is truly disabled, there is some incentive for some people who are not in fact badly disabled to try and slip into that category. (Excessive concern about this led to brutal purges of the disability rolls during the Reagan administration.) Again, however, abolition of DI would not likely "save" much money because it would largely have to be replaced by families and by public and private charity. Again, its vulnerability to global competition is decreased by the fact that no other advanced countries (that is, none of our main competitors and trading partners) show signs of ending such social insurance. Indeed, in this as in many aspects of social welfare, the United States currently offers skimpier benefits than most other advanced countries do. And it is a small program. There may be room for us to improve benefits without competitive disadvantage. Thus we have located DI in a relatively less vulnerable column of Table 1. Increased focus on special training and mainstreaming could further decrease the net costs of disability programs and their vulnerability to global competition.

A similar analysis applies to public medical insurance programs like Medicare and Medicaid, though with certain special wrinkles. Good health, of course, is very helpful to productivity. Many measures that improve health – including programs that contribute to good nutrition (especially for pregnant women and children), public health (including reducing injury or death from tobacco and gunfire), and preventive care – are quite cost-effective in terms of increasing economic production as well as reducing suffering. But health is not the same thing as medical care. The United States tends to concentrate on the latter rather than the former, through a rather bizarre system of public expenditure and private profit that is one of the wonders

of the world. There can be little doubt that our health, and the average quality of medical treatment, could be improved – and the cost of the system could be much reduced as well – if we moved to a single-payer system of national health insurance in which government negotiated fees and expenditures, discouraged wasteful treatments, and insisted on higher priorities for preventive medicine and public health measures. Hence a universal health care system is located in the least vulnerable column of Table 1 (see Page and Simmons, 98-106.)

It is also true, because of the outrageous administrative costs and spiraling expenses that result from our fragmented system of publicly-subsidized private care, that Medicare and Medicaid face cost pressures greater and more imminent than those of Social Security. Still, even the monstrosity of partial medical insurance we now have, which spends enormous amounts of money while failing to cover some 45 million of our citizens, is considerably less vulnerable to the pressures and constraints of global competition than we often hear claimed. This is true for many of the same reasons that apply to OASI and DI. Coverage is in fact rather skimpy; if Medicare and Medicaid were abolished we would likely pay most of the same costs in other ways (surely we would not countenance premature death for millions of the aged and medically indigent); and, in any case, the rest of the advanced world is not about to abandon its health insurance systems. Thus we have located "elderly health care" (Medicare and much of Medicaid) in the same column of Table 1 as OASI – relatively vulnerable to global pressure, but not extremely so.

As discussed above, the economic costs of substantially expanding Unemployment Insurance (UI) would probably be significant. A fair amount of work and economic production would be lost. Hence UI, too, is located in the relatively vulnerable column of Table 1. But this would not necessarily prevent the extension of benefits to presently neglected groups like part-time workers, especially women.

Elsewhere (Page and Simmons 2000, Chapter 8) we have argued that "safety net" programs are best construed as extensions of the idea of social insurance. That is, the logic of social insurance suggests that most of the factors that lead to very low incomes are largely or wholly beyond individuals' control, and that comprehensive social insurance against all such misfortunes could – and probably should – include guarantees to everyone of minimal levels of food, shelter, and medical care. If other egalitarian measures were in place – particularly those designed to equalize education and human capital and to make available jobs at good wages – the marginal cost of such guarantees would be low; only people really unable to work would need to take advantage of them. Hence hypothetical, universal guarantees of minimal food and (through rent subsidies) housing are listed in the relatively less vulnerable column of Table 1.

On the other hand, the type of social insurance most vulnerable to global competitive pressures would be a substantial guaranteed income, which would undoubtedly undermine work incentives to a significant extent. Hence a guaranteed income is placed in the most vulnerable column of Table 1. (For egalitarian purposes, a guaranteed income also has the disadvantage of not invariably helping some severely disadvantaged people – *e.g.*, those suffering from drug or alcohol addiction – who need more specific goods and services and more active intervention in their lives.)

Thus social insurance programs vary markedly in their vulnerability to global competitive pressures, and it is worth paying attention to the differences. The general tendency is for social insurance programs to cluster toward the center of Table 1 – somewhat more vulnerable than human capital and jobs programs, but not extremely so.

Education and Investment in Human Capital. Programs to invest in human capital, on the other hand, are often seen as far more efficient means of combating poverty and reducing inequality. The idea is that by upgrading the skills, health, motivation, and other capabilities of lower-income people, they can be enabled to work more productively and earn higher market wages, thus contributing to – rather than detracting from – the country's economic competitiveness, while improving their own incomes. In the new Information Age, formal education and the acquisition of cognitive skills are often argued to be particularly crucial (*e.g.*, Reich 1991).

We largely agree with this analysis – hence the clustering of education and human capital programs in the less vulnerable columns of Table 1 (see Page and Simmons 2000, Chapter 6) – but with several *caveats*.

First, such investments in no way eliminate the need for social insurance programs, most of which are designed to help people who temporarily or permanently *cannot* work, or at least cannot do so very productively.

Second, investment in human capital should by no means be restricted to formal schooling. Indeed, the most effective and efficient of all human capital programs are probably those that improve infant and child health and nutrition, which enhances people's capability and productivity over the course of their entire lives. Increased efforts of this sort in the United States would clearly improve, rather than impair, our international competitive position, while helping to realize the ideal of equal opportunity. Hence the placement of such programs in the least vulnerable column of Table 1.

Third, the upgrading of cognitive and other skills is clearly not *sufficient* to ensure high wages for everyone through unregulated labor markets. Movement toward wage equality also requires that jobs be widely available at good wages. Otherwise, educational credentials may merely be used to slot people into unequal positions. This is particularly true because many – for the foreseeable future, *most* – U.S. jobs (even computer programming) do not really require advanced education. Substantial reductions in wage inequality would also require other sorts of policies, such as macroeconomic stimulation, minimum wages, wage subsidies like the EITC, egalitarian procurement policies, and (at least during economic downturns) public service employment.

That said, education programs that focus on disadvantaged people can make a great contribution to reducing poverty and inequality, while having positive rather than negative net effects on national economic production. The improved education of disadvantaged children and teenagers, through pre-schooling (*e.g.,* Head Start) and elementary and secondary schools (*e.g.*, Title I of ESEA), is likely to be particularly effective; thus the least-vulnerable location in Table 1. Higher education may be somewhat overrated – after all, many of us who trumpet its virtues

have an interest in selling the product – but help with it too, is much less vulnerable to global pressures than many other egalitarian programs. Job training and retraining -- at least as practiced in recent years – do increase individuals' productivity, but usually only at rather high costs per trainee.

Jobs and Wages. No matter how much human capital people may accumulate, they cannot hope to earn satisfactory incomes unless they have access to jobs at good wages. History makes clear that private markets, left to themselves, generally will not provide jobs and wages adequate to lift all workers out of poverty, and will produce a high degree of income inequality. A host of different kinds of government policies can affect the availability of jobs and the level of wages, but these policies vary markedly in their impact on the economy as a whole and their vulnerability to global competitive pressures (see Page and Simmons 2000, Chapter 7.)

Macroeconomic policies involving low interest rates and tolerance of moderate budget deficits, for example, can stimulate the economy, creating high demand for workers, abundant jobs, and higher wage levels, even for the least-well-paid workers – as they did in the late 1990s. Such policies, and especially counter-cyclical stimulation of the economy during business downturns, can prevent a great deal of unemployment, poverty, and inequality, while helping rather than hurting the economy as a whole. We have listed them in the least vulnerable column of Table 1.

Similarly, as we have already noted, programs like the Earned Income Tax Credit (EITC) that subsidize the wages of low-income workers can greatly reduce income inequality while encouraging rather than discouraging work and having little or no negative effect on America's global competitiveness. The expansion of the EITC is one of the great achievements of the last decade, and further expansion (especially for childless workers) seems called for.

Public service employment has been little used in the United States as a device to increase demand for workers, raise wage levels, and counteract recessions – except during a few historical periods like the depression of the 1930s and (through CETA) during the recessions of 1979-81. If public service employment is designed so as to effectively accomplish work that would not otherwise be done, however, (such as protecting the environment and building infrastructure or low-income housing), it can greatly reduce poverty and inequality while increasing economic production. Certainly such employment would be more efficient than our present warehousing of nearly two million people in prison cells. Hence public service employment, too, is located in the least vulnerable column of Table 1.

International agreements that require other countries (particularly low-wage trading partners and recipients of U.S. investment flows) to meet minimal standards of workplace safety, collective bargaining, wage levels, and environmental protection, can somewhat reduce the pressure of international wage competition by increasing production costs abroad. (If properly designed, they can also improve the quality of life for people in other countries.) Such measures speak directly to the logic of global competition and are not themselves vulnerable to it. To be sure, formidable collective action problems must be overcome in order to persuade or coerce all governments around the world to go along. But the effort seems well worth while.

Only a little more vulnerable to global competition would be minimum wage laws at somewhat higher than the present skimpy levels. Recent research has indicated that the traditional Econ 101 objection – that minimum wages cause unemployment by preventing employers from paying low-skill workers low wages corresponding to what they can produce – does not apply around the actual levels at which U.S. minimum wages have been set. (At some high level, of course, the objection would surely take hold.) Moreover, if minimum wage laws are combined with stimulative macroeconomic policies, public service employment, and other measures we have discussed, nearly everyone's wages will stand comfortably above the minimum level and the laws will entail little economic cost. Minimum wage laws, therefore, fall in the relatively less vulnerable column of Table 1.

Indeed, under these circumstances even a *guarantee* of well-paid work for all people able to perform it – realized through public service employment, with government the employer of last resort – would not be very costly or very vulnerable to competitive pressures. A number of advanced countries come much closer than the United States to offering such a guarantee. For us to guarantee work for all, especially during economic downturns, would render less hypocritical our rhetoric about the sanctity of work and the importance of individual effort, and would significantly reduce U.S. poverty and inequality. It would also be more efficient and less vulnerable to global pressure than a guaranteed income. Similarly, TANF – if the states do their part – is potentially more efficient and less vulnerable than AFDC was.

As we noted earlier, unemployment insurance (UI) is relatively less efficient and more vulnerable to global pressures than these other job- and wage-related programs. Still more vulnerable would be long paid vacations – definitely not now a problem in the United States, but arguably a drag on the economy in Germany and some other places.

Direct efforts to cram the genie of globalization back into the bottle, to reduce low-wage competitive pressures through restrictions on international trade or capital mobility, would probably be very costly to the economy and would put the United States at a considerable competitive disadvantage. Such measures are placed in the most vulnerable column of Table 1. Economists are right in pointing out that gains from trade are *potentially* beneficial to everyone in society, so long as the gains are distributed fairly.

We see policies designed to provide abundant jobs at good wages as being central to any serious effort to reduce U.S. poverty and inequality. Some such policies are likely to bump up against global constraints. Fortunately, however, a number of job- and wage-enhancing policies are quite compatible with economic efficiency and economic growth.

Progressive Taxes. Tax revenues are needed to pay for egalitarian spending programs, and it makes a great deal of difference what sorts of taxes are imposed. If anti-poverty programs are funded by taxes paid mostly by low-income citizens, the extent of net (after-tax) income inequality cannot be much reduced. Only if taxes are *progressive* – only if high-income people pay higher proportions of their incomes in taxes than low-income people do – can substantial equalizing occur. Different U.S. taxes vary markedly in their degree of progressivity; the trend has been toward heavier reliance on the more regressive ones, especially payroll taxes. And the

relatively progressive taxes vary in their vulnerability to global pressures (see Page and Simmons 2000, Chapter 5.)

Corporate income taxes, which – despite much confusion and controversy about their incidence – very likely fall upon the owners of capital generally and are quite progressive, are particularly vulnerable to global constraints because they directly reduce profits. Easy capital mobility now facilitates the movement of capital from high-corporate-tax to low-tax countries, imposing substantial economic costs on any country that tries to maintain high corporate tax rates. Moreover, this effect can often occur without businesses actually having to move capital to foreign countries. Multinational firms can accomplish the same thing through accounting tricks: for example, having their foreign subsidiaries charge artificially high prices for parts exported to U.S. subsidiaries, so that most of the profits and taxes are relocated abroad. We have put corporate taxes in the most vulnerable column of Table 1. The trend for the United States (and probably, though the evidence is mixed, among advanced countries generally) in recent decades has been toward lower corporate income taxes.

Estate and gift taxes are somewhat less vulnerable – perhaps even less so than indicated in Table 1. True, incentives for the most affluent Americans to earn, save and invest are probably increased by the prospect of passing their wealth on to their children (though the magnitude of this effect is difficult to estimate and may not be great). But exemptions are already so high (and there are special provisions for farms and small businesses) that only a small number of the very biggest estates are subject to taxation. Even those can avoid many or most estate and gift taxes through philanthropic donations or the establishment of trusts and foundations. Moreover, the few who are taxed cannot escape liability for estate taxes (unlike corporate income taxes) without actual physical relocation and death abroad, which few Americans want to undertake. Thus global pressures would probably not prevent a significant tightening of estate and gift taxes. They certainly do not dictate the current, anti-egalitarian proposal to abolish such taxes entirely.

Progressive personal income and property taxes are probably still less vulnerable to global competition. Again, steep income taxes on the highest incomes are likely to have significant disincentive effects on work and savings, though these are weaker than is often supposed: people work for power, satisfaction, and glory, not just the extra dollar. But evasion of them is difficult – most Americans do not want to move abroad even if taxes are lower there. Nor do they want to give up owning real property in the United States. Hence we have put these taxes in the relatively less vulnerable column of Table 1.

The personal income tax, in particular, the progressivity of which was considerably undermined during the 1970s and 1980s and only partially restored in the 1990s, has the potential to be used more heavily to fund egalitarian spending programs and to somewhat equalize after-tax incomes. (Proposals to reduce tax capital gains at even less than the current favored levels, of course, would go in exactly the opposite direction.) There is little reason to think that moderate increases in the levels and the progressivity of the personal income tax would subject the United States to serious competitive disadvantage.

Conclusion

This quick and admittedly tentative overview of the vulnerability of egalitarian policies to the pressures of global economic competition suggests conclusions that should please the advocates of such policies.

A look at the comparative evidence indicates that the feared "race to the bottom" has not, to any great extent, actually materialized. Welfare states in advanced countries – especially the social democracies of Northern Europe – have undergone some marginal retrenchment, but the basic structures and benefit levels remain largely intact. Nor do they show signs of unravelling any time soon. The much skimpier U.S. welfare state could undoubtedly be augmented without serious competitive disadvantage.

One reason this "race" looks more like a walk or a crawl is that the *speed* of global wage convergence or factor price equalization (if it is occurring at all) is considerably slower than many have anticipated. And much of the movement may involve a rise from at the bottom rather than a drop at the top. It turns out not always to be so cheap and easy to move factories to low-wage countries, especially when the costs of corruption and political and economic instability are taken into account. Further, low-wage countries do not necessarily stay low-wage for long (note the example of Japan.) The wages of Indian and Chinese workers seem more likely to rise – slowly – toward U.S. levels, than U.S. wages are to fall toward Indian or Chinese levels. Limited competitive economic pressure implies limited political pressure constraining egalitarian policies.

Another reason appears to be simply that voters in advanced countries *won't stand for* a race to the bottom. They tend to throw out of office any politicians who try to engage in it. In effect, the advanced countries may act as sort of cartel, united in resisting any downward pressures that global competition may theoretically produce. The temptation to defect may be theoretical only, if the practical result of doing so is to lose office and have bottom-seeking policies rolled back. To be sure, to the extent that a welfare-state-preserving cartel is operating, this may somewhat accelerate the movement of capital to low-wage developing countries and may impose some economic costs on the advanced countries, but such costs are apparently quite bearable.

Our brief survey of egalitarian U.S. policies indicates that some are considerably more vulnerable to whatever global competitive pressures exist than other policies are. We agree with the now-current wisdom that certain kinds of investment in human capital for the disadvantaged – particularly in infant and child health and nutrition, pre-schooling, and elementary and secondary education – can significantly reduce poverty and inequality while doing good rather than harm to the U.S. economy as a whole. Programs that help disadvantaged adults with higher education and with job training or retraining, too, are not very vulnerable to competitive pressures.

Moreover, a number of programs designed to provide abundant jobs at good wages – which we consider central to any serious effort to reduce poverty and inequality – are also relatively invulnerable to international competitive pressures. This is true of moderately

stimulative (and counter-cyclical) macroeconomic policy, targeted public service employment, low-income wage subsidies like the EITC, and international agreements that require minimal working and environmental standards in low-wage countries. Minimum wages involve considerably lower costs than is often believed. All these measures are more efficient and less vulnerable than unemployment insurance, long paid vacations, tariffs, or other restrictions on trade or capital mobility.

Even those favorite targets of anti-government rhetoric, social insurance entitlement programs and progressive taxes, turn out to be less vulnerable than is often supposed. True, a high level of guaranteed income would create disincentives to work and would probably be costly. But current (or even slightly increased) benefits under the Social Security retirement program, Medicare, and Medicaid, do (or would) not impose great competitive costs on the United States. The alleged financial crises in these programs have been grossly exaggerated. Disability insurance, and minimum guarantees of food and housing, would be still less vulnerable. And a single-payer type of universal health insurance could actually cost less than our present inefficient public/private mish-mash, thus actually helping the economy while reducing some of the painful inequality suffered by those who lack medical coverage.

The corporate income tax is relatively quite vulnerable to global pressure, both because it tends to encourage capital flight and because it is easy to evade through bookkeeping transactions that move profits abroad and hurt the U.S. economy. But estate and gift taxes are less vulnerable, and property taxes and the personal income tax still less so, both because their work and savings disincentives are modest and because they are very hard to evade without physical relocation of wealthy people outside the U.S. To increase the levels and the progressivity of the income tax, in particular, would be a relatively efficient means of funding egalitarian spending programs and would not subject the United States to serious competitive disadvantage.

Table 1. Program Vulnerability to Global Pressure

Type of Program	More vulnerable		Less vulnerable	
Education & Human Capital			Higher Edn	Infant & child health/nutritn
			Job train/ retrain	Elementary & Secndry edn
Jobs & Wages	Long vacations	UI	Min. Wage	EITC
			Guar'd work	Pub srvc employt
	Tariffs/ trade restrns			Intl agts on wrkers/envirnt
	Capital mobility restrns			Macroecon stimula'n
Social Insurance & Safety Nets	Guar'd income	Elderly hlth care		Universal hlth (sngl payer)
		OASI	DI	
			Food guar	
			Rent subsidy	
Progressive Taxes	Corpt inc tax	Estate& gift tax	Persl inc tax	
			Property tax	

See: Benjamin I. Page & James R. Simmons, *What Government Can Do: Dealing with Poverty and Inequality* (University of Chicago Press, 2000)

References

Abowd, J., and R. Freeman, eds. 1991. *Immigration, Trade, and the Labor Market*. Chicago: University of Chicago Press.

Bluestone, B. 1994. The Inequality Express. *The American Prospect* 20 (Winter): 81-93.

Boix, C. 1998. *Political Parties, Growth and Equality: Conservative and Social Democratic Economic Strategies in the World Economy.* Cambridge: Cambridge University Press.

Boyer, R. 1996. The Convergence Hypothesis Revisited: Globalization but Still the Century of Nations? In *National Diversity and Global Capitalism*, ed. S. Berger and R. Dore, 29-59. Ithaca: Cornell University Press.

Dunkley, G. 2000. *The Free Trade Adventure: The WTO, The Uruguary Round, and Globalism: A Critique.* London: Zed.

Esping-Andersen, G. 1990. *The Three Worlds of Welfare Capitalism.* Princeton, NJ: Princeton University Press.

---. 1999. *Social Foundations of Postindustrial Economies.* Oxford: Oxford University Press.

Freeman, R., ed. 1994. *Working Under Different Rules*. New York: Russell Sage.

Garrett, G. 1998. *Partisan Politics in th Global Economy.* Cambridge: Cambridge University Press.

Godley, W. 2000. What if they start saving again? *London Review of Books* 22:13-14.

Golden, M., M. Wallerstein, and P. Lange. 1999. Postwar Trade-Union Organizaton and Industrial Relations in Twelve Countries. In *Continuity and Change in Contemporary Capitalism*, ed. H. Kitchelt, P. Lange, G. Marks, and J. D. Stephens, 194-230. Cambridge: Cambridge University Press.

Huber, E., and J. D. Stephens. 1998. Internationalization and the Social Democratic Model: Crisis and Future Prospects. *Comparative Political Studies* 31 (3,June):353-98.

Iversen, T. 2000. Decentralization, Monetarism, and the Social Democratic Welfare State. In *Unions, Employers, and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies*, ed. T. Iversen, J. Pontusson, and D. Soskice, 205-31. Cambridge: Cambridge University Press.

Iversen, T., and T. Cusack. 2000. The Causes of Welfare State Expansion: Deindustrialization or Globalization? *World Politics* 52 (3,April):313-49.

Iversen, T., and A. Wren. 1998. Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy. *World Politics* 50 (July):507-46.

Kitschelt, H. 1994. *The Transformation of European Social Democracy.* Cambridge: Cambridge University Press.

Mishel, L., J. Bernstein, and J. Schmitt. 1999. *The State of Working America, 1998-1999*. Ithica, N.Y.: Cornell University Press.

Page, B. 1997. Trouble for Workers and the Poor: Economic Globalization and the Reshaping of American Politics. Paper delivered at the annual meeting of the Midwest Political Science Association, Chicago, April 10-12.

Page, B., and J. Simmons. 2000. *What Government Can Do: Dealing with Poverty and Inequality*. Chicago: University of Chicago Press.

Pierson, P. 1996. The New Politics of the Welfare State. *World Politics* 48 (1,January):143-79.

Pollin, R. 2000. Anatomy of Clintonomics. *New Left Review* 3 (May/June):17-46.

Pontusson, J., and P. Swenson. 1996. Labor Markets, Production Strategies, and Wage Bargaining Institutions: The Swedish Employer Offensive in Comparative Perspective. *Comparative Political Studies* 29 (2,April):223-50.

Reich, R. 1991. *The Work of Nations: Preparing Ourselves for 21st Century Capitalism.* New York: Random.

Stephens, J. D. 1996. The Scandinavian Welfare States: Achievements,Crisis, and Prospects. In *Welfare States in Transition: National Adaptations in Global Economies*, ed. G. Esping-Andersen, 32-65. Thousand Oaks: SAGE.

Stolper, W., and P. Samuelson. 1941. Protection and Real Wages. *Review of Economic Studies* 9 (1): 58-73.

Streeck, W. 1997a. Benefitical Constraints: On the Economic Limits of Rational Voluntarism. In *Contemporary Capitalism: The Embeddedness of Institutions*, ed. J. R. Hollingsworth and R. Boyer, 197-219. Cambridge: Cambridge University Press.

----. 1997b. German Capitalism: Does It Exist? Can It Survive? In *Political Economy of Modern Capitalism*, ed. C. Crouch and W. Streeck, 33-54. Thousand Oaks: SAGE.

Wade, R. 1996. Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated. In *National Diversity and Global Capitalism*, ed. S. Berger and R. Dore, 60-88. Ithaca: Cornell University Press.

Weiss, L. 1998. *The Myth of the Powerless State: Governing the Economy in the Global Era.* Cambridge: Polity.

Wong, K. 1995. *International Trade in Goods and Factor Mobility*. Cambridge, Mass.: Mass.: MIT Press.