

# *SWK 6061: Comparative Social Security Systems*

## Lecture 3: Economic Insecurity under Globalisation

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# Globalization and its impacts

- The 20th Century witnessed the fastest rate of globalisation of the world economy in the history of capitalism.
- Most nations are now linked in a **combined world system** but with **polarised and unequal** development.



# Super-state institution

- Power and authority of the transnational capital are increasing as a direct consequence of the rise of the power of super-state institution like the WTO, the IMF and the World Bank.
- The admission of China to the WTO marked the end of the long resistance of China against joining the world capitalist system.



# Impacts on people

- Accelerate individual nations to be incorporated **more deeply in the world system** in the 21st century.
- what globalisation will bring to most of the labour in the world is not an adequate and stable livelihood, but a life of **poverty** and **uncertainty**.



# Changing International Division of Labour (CIDL)

- the accelerated migration of capital in the form of foreign direct investment (FDI, 外資直接投資) by the Transnational Corporations (TNCs), have all facilitated the establishment of an integrated international production system, now called the 'Changing International Division of Labour' (CIDL)



# Migration of Capital

- The extensive migration of capital is cited as the major reason for the **marginalisation of world labour**, both in the developed countries and in the Third World.
- it marks the end of the era of **Fordist accumulation** and epitomises **flexible accumulation** as the hallmark of the **post-Fordist era**.



# Essence of Capitalism

- However, the **flexibility** of capitalism is not new.
- Although the appearance of capitalism has changed, the essence of it – flexibility and **eclecticism** – remains unchanged.
- the current transformation of capitalism as being a specific stage of its development to achieve **greater liquidity, flexibility, and freedom of choice.**



# Arrighi (1994): discontinuous change

- The restructuring of capitalism, going on since the 1970s according to Arrighi, should be understood as a phase of **discontinuous change**, which is **typical** rather than atypical of the history of capitalism.





# Crisis, restructuring and reorganisation

- Arrighi argues that 'long periods of crisis, restructuring and reorganisation, in short, of discontinuous change, have been far more typical of the history of the capitalist world-economy than those brief moments of generalised expansion' (1994: 1).



# Two theoretical traditions

- transition from Fordism to 'flexible accumulation' can be understood in two theoretical traditions:
  - **Fernand Braudel's** argument that the essential feature of historical capitalism has been '**flexibility**' and '**eclecticism**' (Braudel 1982);
  - **Karl Marx's** general formula of capital:  $M-C-M^*$ , which can be read both in a micro and a macro perspective.



# Braudel

- an essential feature of the general history of capitalism is 'its unlimited flexibility, its capacity for change and *adaptation*' (1982: 433).
- '*eclecticism*' rather than concrete forms are the general characteristics of capitalism.
- The distinctive advantage is 'not having confined oneself to a single choice, of being eminently adaptable, hence non-specialised



# Marx's formula M-C-M\*

- **Money capital (M)** means liquidity, flexibility, freedom of choice.
- **Commodity capital (C)** means capital invested in a particular input-output combination in view of a profit. Hence it means concreteness, rigidity, and a narrowing down or closing of options.
- **M\*** means *expanded* liquidity, flexibility, and freedom of choice



# C-M\* phase : Financial rebirth and expansion

- at a macro level, the formula represents a recurrent pattern of historical capitalism as a world system.
- The central aspect of this pattern is the alternation of epochs of material expansion (M-C phase) with phases of financial rebirth and expansion (C-M\* phase).



# From 'Fordism' to 'Flexible Accumulation'

- For Fordism, the system of the organisation of labour has been linked to the system of industrial production at both a macro and a micro level.
- At the macro level Fordism wanted labour to benefit from increasing productivity, to ensure an expanding demand for products (Aglietta 1979). It was argued that this relationship was assured through the development of wage-determination systems, which provided for steadily rising real wages in line with productivity.



# Post-Fordist

- The search for an accommodation to post-Fordist conditions led to a **fragmentation of wage-determination systems**, reflecting a more fragmented and unstable system of industrial production.



# Globalization, Unemployment and Poverty

- Neoliberal scholars and policymakers argue that globalisation provides opportunities for economic growth and poverty alleviation
- However, urban poverty in advanced cities has not been eradicated.
- Economic development itself cannot solve poverty problem





# Underclass

- Wilson (1987, 1996) identifies a new group of urban poor or “underclass” emerged as a result of disappearing of jobs due to deindustrialisation.



# Social polarisation thesis

- Global cities scholars (Mollenkopf & Castells, 1991; Fainstein & Harole 1992; Sassen 1991, 1998; Lawless & Smith, 1998),
- postulates that cultural, economic and political polarizations between a comparatively cohesive core of professionals and a disorganized periphery fragmented by race, ethnicity, gender, occupational and industrial location, and the spaces they occupy have turn cities into divided or dual cities.



# New social conditions for the disadvantaged groups

- Wacquant (1999) summarised, globalisation, coupled with its adverse consequences, produces new social conditions for the disadvantaged groups:
  - resurgence of **social inequality**,
  - **deproletarianisation** (i.e. being expelled from the wage labour market) and casualisation of labour,
  - **retrenchment of welfare states**, and
  - **spatial concentration** and **stigmatisation** of poverty.



# Unemployment → Poverty

- McKernan and Ratcliffe (2002, pp.16-7) discover that there is no single path into or out of poverty because many events throw people into poverty and many events help people exit from poverty.
- But loss of employment by the household head is identified as the event most often associated with poverty entries, while losses of employment by the spouse and other family members have smaller effects.



# Jobs → exit poverty

- With regard to poverty exits, employment gains are most important trigger event; employment gains by the head, spouse, and other household members are of roughly equal importance in helping individuals exit poverty.



# Jobless growth

- Jobless growth becomes prominent because firms are trying to buffer the economic uncertainties created by globalisation either through substituting flexible labour inputs for inflexible ones (Schreft & Singh, 2003) or simply being reluctant to create jobs (Groshen & Potter, 2003).
- As a result, not only the unemployed are likely to fall into poverty, but also those staying on the job, the so-called working poor, may have difficulty to earn an income that can support a family



# Globalisation, Flexibility and the Destabilization of Work

- Under globalisation, as both transnational and local firms are facing keen competition from one another, they employ different **cost reduction and flexibility strategies**, like **outsourcing, downsizing and automation**, to expand or maintain their market shares.



# Neoliberal state policies

- Corporations' cost reduction strategies are further facilitated and reinforced by the neoliberal policies adopted by the advanced capitalist states which **relax their borders and encourage the transnational flows of people, capital, goods and services.**





# Destabilised labour market

- the labour markets of global cities are being constantly destabilised under the threats of deindustrialisation, non-standard employment practices, weakening unions, and labour-replacing automation.



# Employment insecurity

- The **destabilisation of labour markets** has induced serious employment insecurity among the working classes of global cities
- reducing their available resources, thus making their livelihood more vulnerable to risky life events
  - **sicknesses,**
  - **accidents, and**
  - **natural disasters.**



# Reasons for destabilisation



- Deindustrialization
- flexible firm model / flexible management
- labour-replacing technological innovation
- increasing legal and undocumented employment of migrant workers
- retreat of welfare states

# Deindustrialization

- caused by the relocation of the labour-intensive production processes to cheaper places deprives manufacturing workers' jobs, and forces them to abandon their skills and take up unfamiliar jobs with less income (Bluestone & Harrison, 1982).
- The major reason for deindustrialisation is that the flows of capital and manufactured goods are much easier than the flows of workers.





# NIDL: producer services

- As a result, a new international division of labour is created: labour-intensive manufacturing processes are moved to developing countries, while the high-value-added production and distribution processes are retained in advanced countries, and most of them are concentrated and centralised in global cities.
- These high value-added processes include the so-called producer services like the corporate coordination functions that command and control dispersed manufacturing processes, financial, legal, accounting, and advertising services, and production activities such as R&D and product design.

# Postindustrial cities

- Deindustrialisation structurally transforms global cities into postindustrial cities in which **services constitute the major impetus for economic growth**, and traditional blue-collar workers become the losers under globalisation.
- Not all service workers are the winners because **relocating production processes or offshoring does not exclusively happen in the manufacturing sectors, but also in some services** that can be digitalised and transferred geographically, like data processing and back-office services.



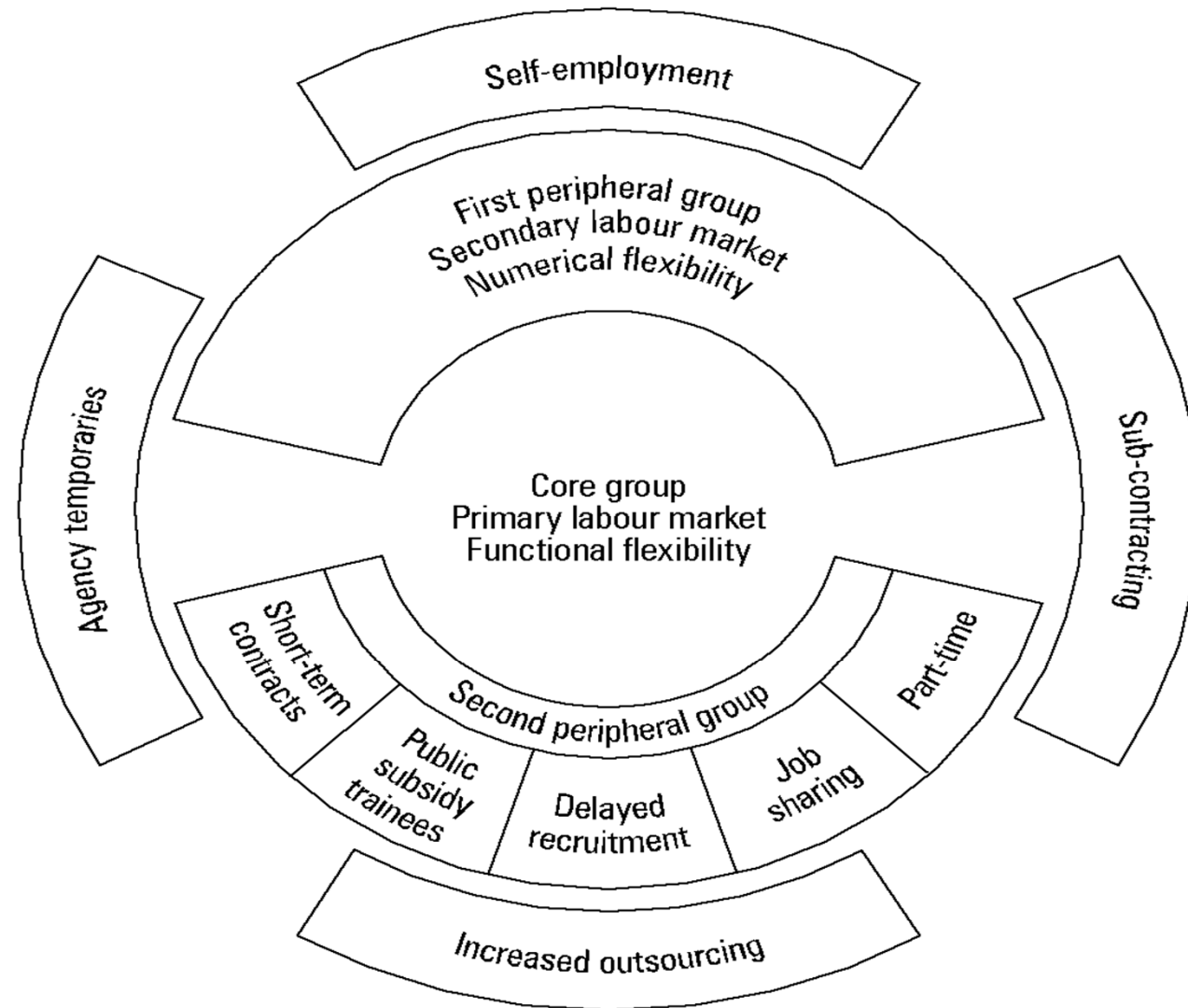
# Place-tied services

- The unaffected services are those place-tied services, like cleaning, catering, and routine security services, consumer services, such as tourism and retailing, professional social services, like health, education and welfare services, and producer services, including legal, financial and accounting services.
- Moreover, except producer and professional social services, most of the place-tied and consumer services are low-skilled and low-waged.
- The industrial decline inevitably releases huge number of unemployed manufacturing workers seeking jobs in these service sectors, and, consequently, drives down the already low wages.



# Flexible firm model

Figure 2 The flexible firm (after Atkinson, 1984, p. 29)





# Technological innovation

- Global competition and other global political economic factors do shape its direction.
- As the European Commission (1997, p.16) claims, the general use of low-cost information and data storage and transmission technologies accompanied by organisational, commercial, social and legal changes will profoundly change life both in the world of work and in society generally.
- The adoption and development of information and communication technologies (ICTs) are regarded as vital to the global competitiveness of a country's enterprises.



# Technological changes → Flexible Management

- Through using general purpose machineries enhanced with the information technologies, a technological paradigm of flexible specialisation that replaced the mass production paradigm enables firms to cut inventories, to tailor-make specific products for highly fragmented niche markets, and facilitate just-in-time production (Piore & Sabel, 1984, Smith, 1997).
- However, flexible specialisation predicated the practices of numerical and functional flexibility and employment restructuring, meaning that a huge number of low-skilled workers are being peripheralised while a small number of core workers are constantly being upskilled to perform multi-tasks.



# Use of Migrant workers: State control

- States continue to exert a strong influence over global movement of people through various external and internal immigration controls (Brochmann & Hammer, 1999).
- States devise different migration policies and incentives in responding to economic needs and globalisation, though, as Siddique and Appleyard remarked, "The state remains powerful in deciding about the domestic market, but the reality about regional and global exchanges of highly skilled workers has become a realm in which global business is perhaps more powerful" (quoted in Appleyard, 2001, p.14).



# Use of Guest Workers

- Rosewarne (1998) observes that a number of Asian states have pursued different strategies of recruiting and deploying guest workers to further their economic interests
- South Korea exported workers to Middle East in the late 1970s and early 1980s;
- Philippines, Thailand and Indonesia exports female domestic workers for huge amount of remittance
- South Korea, Taiwan and Hong Kong recruit foreign workers to do the so-called 3D (dirty, difficult and dangerous) jobs which no local people willing to do.



# Chain Migration

- Sassen (1991) also reports that large-scale immigration happens in global cities and increases the income and occupational polarisation there.
- Moreover, chain migration in which migrants' network determine their timing and places for migration is very common (Moretti, 1999). Consequently, distinctive patterns of transnational employment are structured along different lines of nationality, ethnicity and race, gender, occupations and industries (Rosewarne, 1998, p.971).



# Unprotected guest worker

- low-skilled guest workers lack sufficient protection against contract violation, extortionate agency fees, underpayment, poor working conditions, and discriminatory treatment, from their home as well as the host countries
- The situation is even worse for undocumented workers because employers often take advantage of their illegal status to exploit their labour power.



# Retreat of welfare states

- Ease of capital mobility have driven states to deregulate their markets so as to woo inward direct investment and prevent capital outflows.
- As a result, a “competitive deregulation” among states happens. Liberalisation and the deregulation of labour markets are reinforced by an ideological shift from Keynesianism to a neoliberal framework in many advanced countries.



# Collapse of communism in 1989

- The neoliberalism is further strengthened and accepted by most countries after the collapse of communism in 1989. Deregulated markets, no matter policymakers like it or not, have been regarded as the best mechanism to determine the allocation and pricing of economic resources.





# Limited Revenue

- In addition to the ideological shift to market-oriented neoliberalism, increasingly limited sources of state revenue and the need of low taxes and social overheads to attract global capital generate pressures for the retreat of welfare states (Pinch, 1997, pp.21-26).



# Reducing social insurance

- The deregulation and retreat of welfare states destabilise labour markets through increasing labour market risks and reducing social insurances, which mitigate the risks, of workers (DiPrete, 2002).



# Trilemma of the service economy

- Iversen and Wren (1998) invoke postindustrialisation or what they called “the trilemma of the service economy” as an alternative to globalisation in explaining rising social polarisation and unemployment in advanced economies.



# Trilemma of the service economy

- Advanced countries can only two of the three objectives for economic policies: fiscal discipline, earning equality, and employment growth.
- If fiscal discipline has to be selected, then countries face with a trade-off between earning equality and employment growth.
- In other words, an advanced country can only choose between an unequal growth and a jobless growth.



# Baumol's cost disease

- Service sectors suffer Baumol's cost disease in which productivity growth in most service sectors is stagnated and lagged behind that of manufacturing sectors.
- Once manufacturing employment is declining due to industrial relocation and automation, high growth in market-provided services is needed to compensate for the lost jobs.
- However, if wages in services are coupled with wages in manufacturing, employment in less productive service sectors will be inhibited because of the relatively high labour costs (Iversen & Wren, 1998, p.512)



# Service workers –working poor



- Esping-Andersen (1999, pp.111-4) lists out three possible responses to this cost disease problem.
- The first one is to allow wages adjusting to productivity differentials that pushes down the wages of the more stagnant services and makes huge number of people employed at very low wages.
- In effect, a country can achieve fiscal discipline and employment growth, but not earning equality.
- “Every job is a job, Low pay is better No pay”

# Equality vs. Sustainability

- The second is to allow service earnings to follow the general wage developments in the economy and price the labour-intensive and low value-added service jobs out of market.
- This will achieve fiscal discipline and earnings equality but sacrifice employment growth or produce jobless growth.
- Finally, a country can subsidize services so as to maintain employment growth and earnings equality, but this will give a heavy fiscal burden to the state.
- Esping-Andersen's responses highlight the trilemma of a service-oriented postindustrial economy.





# Trilemma is simplified as a dilemma

- Globalisation “simplifies” the trilemma by tying up the hands of states in spending and forcing them to exercise, at least a certain degree of, fiscal discipline.
- The Keynesian demand management policies may be outdated in the globalisation era. As a result, either earnings equality or employment growth, but not both.
- For pursuing earnings equality among the employed, an outsider group who cannot get employment and have to rely on state welfares will be created.



# Welfare create social cleavages

- This may result in deep insider-outsider divide and create a lot of social cleavages (Esping-Andersen, Assimakopoulou & Van Kersbergen, 1993, pp.41-42).
- For pursuing employment growth, most of the jobs created in service sectors are low-wage jobs with poor working conditions.



# Defamilialisation

- refers to “ the degree to which households' welfare and caring responsibilities are relaxed -- either via welfare state provision, or via market provision” (Esping-Andersen, 1999, p.51).
- The main relevance of defamilialisation via market to labour-intensive and low-skilled services is that most of these services in principle can be self-provided by household rather than purchased from market.
- These services include cooking, cleaning, childcare, looking after the old and the sick, running the household, which are traditionally provided by women's unpaid labour



# make-or-buy decisions

- The expansion of the service economy is in large part contingent upon households' make-or-buy decisions;
- whether households will self-serve or buy the services in turn depends on the market prices of the services.
- The main factors affecting household market purchase are levels of income, relative prices and time constraints.
- For those time-strapped households with adequate disposable income, they constitute a counterweight to the forces that repress labour-intensive services.



# Service : lower cost, bigger share

- the rise in female participation in the labour market, especially for those who are married and with children, may reduce the importance of servicing cost which offsets the growth of service economy.
- From the German case Esping-Andersen (1999, p.109) observes, "High labour costs crowd out private social services; low levels of female participation make them less demanded".
- Hence, the lower the cost of the low-skilled services, the bigger the service economy will be.



# working class serves middle class

- In order to attract and retain the transnational “elites”, high-end services which fit their classy consumption tastes set up a whole chain of service demand to the low-end ones.
- The service sector for the transnational capitalist class is definitely very small. However, with their great amount of disposable income, relative price does not constitute any constraint for them to consume expansive services.
- Indeed, they deliberately purchase position goods and services (Hirsh, 1977), so as to reflect their status. As a result, a medium size of the so-called middle class population is drawn to this luxury service sector.



# Time constraint of middle class → purchase

- Most often these middle class families are either dual working families or single families.
- Time constraint becomes salient for them. Since the services they provided are high value-added, their amount of disposable income allows them to trade self-servicing for market purchase.
- Thus a larger, but smaller value-added service sector is created because the middle class families do matter relative price.



# Service for the working class

- The lower class people are the one who serve the middle class.
- When more and more lower class families become dual working families, they need to purchase services from the market.
- Since they are severely concerned with the time and relative price factors, thus a much bigger service sector with very low added value has to be created to maintain the everyday living for the lower class families.



# Migrants serve the working class

- In order to drive the labour cost even lower, just like what has been happening in the manufacturing sectors, migrant workers from the Third World are recruited.
- To some extent, this low value-added service sector is self-expanding up, along with lowering relative price, to an equilibrium that no more low-income families can trade self-servicing for market purchase.





# Marginality Trap of Urban Workers

