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# THE IMPACT OF GLOBALISATION ON THE WELFARE STATE: CONVERGENCE, DIVERGENCE, CHALLENGES AND POLICY RESPONSES

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## ABSTRACT

This paper examines the multifaceted impact of globalisation on welfare states across the world. As economic integration, capital mobility, and technological advancement have accelerated, welfare states have faced unprecedented pressures to restructure, retrench, or adapt their social protection systems. Drawing on comparative analysis across developed and developing economies including the Nordic countries, the United States, and India, this study investigates how globalisation has reshaped social security systems, healthcare, education, and labour market policies. While globalisation has generated economic growth, technology transfer, and improved service efficiency, it has simultaneously exacerbated income inequality, job insecurity, and a competitive 'race to the bottom' in social protections. The paper critically evaluates the roles of international institutions such as the IMF, World Bank, and WTO. The paper concludes with policy recommendations centred on inclusive growth, universal basic income, and adaptive social policy innovation to build welfare states resilient to the challenges of the twenty-first century.

**Keywords:** Globalisation, Welfare State, Social Policy, Inequality, Retrenchment, Resilience, International Institutions

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## 1. INTRODUCTION

*“At the heart of globalisation is a new kind of intolerance in the West towards other cultures, traditions and values, less brutal than in the era of colonialism, but more comprehensive and totalitarian.”*

- **Martin Jacques**

### 1.1. Background of Globalisation

Globalisation, broadly defined as the growing cross-border movement of goods, services, capital, labour, information, and ideas, has essentially altered the world political economy. This process of globalisation started around the 1970s and has been ramping up through the 80 and 90s, especially due to the ending of the Bretton Woods system, the freeing up of capital markets, and the spread of trade agreements.<sup>2</sup> These days globalisation is the main characteristic of economic organisation worldwide. The disintegration of the Soviet Union in 1991 was a big turning point for the global adoption of market economies, with neoliberalism becoming a norm in global governance institutions.

The contemporary phase of globalisation is very different from earlier periods of economic integration due to its rapidity, extent, and the profound level of interdependence it brings about. The digital revolution has made the world smaller. It is now possible for companies to manage their production in different continents, for financial operators to move capital at lightning speed, and for cultural items to be globally available. This integration, besides contributing to a remarkable increase in total global wealth, has also given rise to new vulnerabilities, especially for those countries that want to have extensive social protection systems for their people.

### 1.2. Concept of Welfare State

The welfare state is the institutional manifestation of the decisions taken by the modern democratic countries to guarantee the social and economic welfare of their citizens by

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<sup>2</sup> Peter Vanham, *A brief history of globalisation*, World Economic Forum, Held on (January 17, 2019), available at: <https://www.weforum.org/stories/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/> (last visited on March 17, 2026).

the means of redistributive policies, providing public services, and setting up social insurance schemes. The welfare state is based on the social contract traditions of Western political thought and was greatly influenced by the devastation of two World Wars and the Great Depression, becoming the signifier political success of the twentieth century.<sup>3</sup> The fundamental notion behind the welfare state is that if the market is left to operate freely it will create situations such as unemployment, sickness, and old age, that no individual can fully protect against financially on their own, and that the collective provision is therefore a moral necessity as well as efficient from a social point of view.

It turns out that the welfare state assumes different institutional forms in various national contexts. The Scandinavian social democratic model, which is universally inclusive and provides generous benefits, is completely different from the liberal Anglo-American model that relies on means-tested assistance and from the corporatist continental European model centred around occupational status.<sup>4</sup> However, all welfare states, despite their differences, are committed to the idea of recommodifying labour and ensuring that citizens' access to essential goods and services is not solely dependent on their position in the market.

### 1.3. Objectives of Research

This paper mainly pursues four principal research objectives:

- First, it seeks to map the mechanisms through which globalisation exerts pressure on welfare state institutions and social policy choices.
- Second, it aims to assess the empirical evidence regarding the extent to which welfare states have retrenched, adapted, or proven resilient in the face of globalisation.
- Third, it discusses about the role of international organizations in determining the extent to which globalisation affect welfare state.

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<sup>3</sup> Asa Briggs, "The Welfare State in Historical Perspective" 2 *European Journal of Sociology* 221 (2009).

<sup>4</sup> *Ibid.*

- Fourth, it evaluates the policy recommendations available to governments that wish to reconcile the imperatives of economic openness with social solidarity and cohesion.

The analysis reveals that globalisation exerts significant but uneven pressure on welfare states, reshaping rather than dismantling them. Outcomes are decisively mediated by institutional configurations, partisan politics, and social coalitions. Addressing the distributional consequences of integration demands coordinated fiscal reform, adaptive social protection systems, and strengthened democratic governance of the global economy. At the same time, policy responses must balance economic competitiveness with social equity to sustain public legitimacy and long-term stability. In this context, international cooperation and inclusive policy making become essential to ensure that the benefits of globalisation are broadly shared rather than concentrated among a few.

## 2. THEORETICAL FRAMEWORK

### 2.1. The Race to the Bottom Hypothesis

The most powerful and politically charged idea about the effect of globalisation on welfare states is the “race to bottom” (RTB) hypothesis. This is also known as efficiency hypothesis. At its extreme, this theory argues that free movement of capital and tax competition among governments will constantly lower the levels of corporate taxation, labour regulation, and social spending as governments try to lure and keep internationally mobile investment. The reasoning behind is simple, as capital becomes more mobile globally, it can effectively threaten to leave countries with high tax burdens or tough regulatory conditions. In response to this threat, governments are driven to lower costs they impose on capital, including social insurance contributions, corporate taxes, and regulatory compliance costs.<sup>5</sup>

The theoretical basis for the RTB thesis come from a range of philosophical traditions. Tax competition models in international economics, originally made tangible by Zodrow and Wilson in 1986, were among the first to show that when capital is free to move and regions compete for investments, the final equilibrium tax rates on

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<sup>5</sup> Priyaranjan Jha & Giray Gozgar, “Globalization and taxation: Theory and Evidence” 59 *European Journal of Political Economy* 296 (2015).

capital can be lower than the socially optimal ones, and hence there would be less than optimal provision of public goods. Rodrik's (1997) very important paper on the 'globalisation paradox' explained these problems in a very clear way, holding that the political and social pillars of open economies the 'embedded liberalism' deal made at Bretton Woods are being undermined by the extent and speed of today's globalisation.

## **2.2. The Compensation Hypothesis**

Contrary to the RTB thesis, a significant number of works have supported a different line of argument which is the 'compensation hypothesis'. The main idea, which can be linked to Cameron's (1978) first work, is that the more a country is exposed to international economic fluctuations and risks, the stronger will be its voters' demand for social insurance and income stabilisation. Katzenstein's (1985) research on small European open economies showed that the most open economies in terms of international trade were precisely those that had developed very generous and comprehensive welfare states because their need to handle the trade-affected dislocations gave rise to very strong domestic political coalitions advocating for social protection.<sup>6</sup>

Garrett (1998) took the case back to the period of capital mobility and argued that leftist governments still had significant political opportunities to combine open economies with high levels of public spending and progressive redistribution. Brady, Beckfield, and Seeleib-Kaiser (2005) also reported that trade openness was a factor positively influencing welfare state effort, which is in accordance with the compensation argument. Iversen and Soskice (2001) proposed the social insurance demand theory with asset specificity as the basis for the micro-version of this hypothesis.

## **2.3. Embedded Liberalism and its Erosion**

The idea of 'embedded liberalism' propounded by John Ruggie offers a crucial historical and normative framework for understanding the globalisation-welfare state relationship. In 1982, Ruggie pointed out that the international economic order after the

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<sup>6</sup> Andreas Bergh, "The Compensation Hypothesis Revisited and Reversed" 44 *Scandinavian Political Studies* 140 (2021).

war was a specific mix where on the one hand, there was economic openness however on the other hand, there was the states obligation to protect people socially. By agreeing to liberalise international trade and payments, states also agreed to giving up part of their right to controlling domestic social dislocations, although they still retained the right- and even the obligation- to do so.<sup>7</sup>

However, the breaking apart of this compromise starting from the 1970s has not been sudden, but rather very deep. The disintegration of the Bretton Woods system, the deregulation of financial markets, the increase in bilateral investment treaties, and the shift towards carrying out deeper forms of economic integration have all, to different degrees, limited the possibility of domestic policy autonomy. Globalization has gathered pace and it has gradually undermined this compromise. The pressing power of the capital markets at a global level, coupled with the competitive pressures that result from trade, have been some of the mechanisms through which this compromise has been eroded progressively. This has been most clearly seen in the diminishing fiscal and policy autonomy of national governments.

### **3. MECHANISM OF GLOBALISATION AFFECTING WELFARE STATE**

#### **3.1. Trade Liberalisation**

Trade liberalisation has been pointed out as one of the major channels through which globalisation impacts welfare states. By getting domestic industries exposed to international competition, trade liberalisation leads to very strong changes in the thinking of how to reduce costs of production, labour costs and social contributions being the main ones. The theoretical framework of Stolper-Samuelson suggests that in labour-rich developing nations, trade liberalisation will increase the wages of unskilled workers but decrease the returns to capital, while in the developed capital-rich countries, the opposite will happen, leading to a fall in the wages of unskilled workers and a rise in inequality.<sup>8</sup> The actual data supports this forecast, although the extent of trade impacts on labour market results is disputed as

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<sup>7</sup> John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order" 36 *International Organisations* 379 (1982).

<sup>8</sup> Wolfgang F. Stolper, Paul A. Samuelson, "Payment and Real Wages" 9 *The Review of Economic Studies* 58 (1941).

compared to the effect of technological change.

### 3.2. Capital Mobility

Capital mobility is the most primary factor that limits the expansion of the welfare state. When capital is allowed to move freely from one country to another, governments find themselves in a position of structural constraint, policies that either increase the taxation of capital or make domestic investment less profitable might lead to capital flight and hence disinvestment from abroad. In a way, this turns capital owners such as big companies as well as wealthy individuals into players with the most powerful leverage over government policy structurally such that they can block the adoption of redistributive policies even without lobbying directly. Geoffrey Garrett and a few others have described this phenomenon as the ‘golden straitjacket’ of global finance.<sup>9</sup>

The fiscal effects of capital mobility are not negligible. The sources of tax revenues from the corporate sector have come under the threat of international tax competition since governments, in their eagerness to lure or keep mobile capital, resort to lowering the effective tax rates. Among the measures taken by the Organisation for Economic Co-operation and Development (OECD) to curb this problem are their Base Erosion and Profit Shifting (BEPS) initiative and the more recent global minimum corporate tax agreement; however, their implementation is only partially successful, and the downward spiral of corporate taxation levels has not been completely stopped.<sup>10</sup>

### 3.3. Technological Advancements

Technological change, however separated from globalisation analytically, is in fact very closely linked with it and has similarly, powerful effects on welfare states. Automation and digitalisation are changing the structure of work, first and foremost by replacing manual and mental routines tasks that people do, and second by largely removing medium level occupation from the job hierarchy. The gig economy

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<sup>9</sup> Geoffrey Garrett, “Globalization and the government spending around the world” 35 *Studies in Comparative International Development* 3 (2001).

<sup>10</sup> Base Erosion and Profit Sharing (BEPS), available at: <https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html> (last visited on March 17, 2026).

has been responsible for an increase in the proportion of workers having insecure, non-standard jobs not covered by traditional social insurance systems which were designed based on stable, full-time work. Digital platforms allow labour to be coordinated across borders, thereby weakening further the institutional basis of collective bargaining and social partnership.<sup>11</sup>

### **3.4. Role of Multinational Corporations**

Multinational corporations (MNCs) are involved heavily in the political economy of globalisation and welfare states. MNCs make the most of globalisation to do regulatory arbitrage internationally, i.e. they can decide to carry out different stages of their production in those jurisdictions offering the best combinations of labour costs, taxation, and regulation. By being able to move their production, they can hold governments at ransom with the threat of disinvestment in case labour or social standards are considered uncompetitive. However, MNCs are also one of the leading ways through which developing countries can gain access to technology and knowledge, and their presence may even lead to spillover effects in the host economies.<sup>12</sup>

## **4. IMPACT OF GLOBALISATION ON WELFARE POLICIES**

### **4.1. Change in Social Security Systems**

The impact of globalisation on social security systems has been very large and varied. The pension systems across the OECD countries have undergone reforms to make the link between contributions and benefits more actuarial, thus shifting the risk from employers and the state to individuals.<sup>13</sup> The restructuring of unemployment insurance has led to the inclusion of activation requirements and benefits being time-limited, in line with the logic of workfare rather than a passive maintenance of income. Social assistance programmes have also been exposed to more means-testing and conditionality, with eligibility being increasingly contingent upon

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<sup>11</sup> Naeimah Alkharafi & Mariam Alsabah, "Globalization: An Overview of Its Main Characteristics and Types, and an Exploration of Its Impacts on Individuals, Firms, and Nations" 13 *Economies* 91 (2025).

<sup>12</sup> Core Characteristics of Globalization, *available at*: <https://polsci.institute/international-relations/core-characteristics-of-globalisation/> (last visited on March 20, 2026)

<sup>13</sup> Marcelo Santos & Marta Simoes, "Globalisation, Welfare Models and Social Expenditure in OECD Countries" 32 *Open Economies Review* 1063 (2021).

participation in employment, training, or job search activities.<sup>14</sup>

In developing countries, the budget constraints linked to the global economy and tightened by the IMF and World Bank conditionalities, have hampered the establishment of extensive social insurance systems. Instead, many developing countries have opted for targeted cash transfer programme that are aimed at helping the poorest households while keeping fiscal costs and labour market distortions to a minimum.

#### **4.2. Healthcare and Education Reforms**

Globalisation has dramatically altered healthcare and education systems. In healthcare, reforms geared towards the market have led to competitive bidding, internal markets, and private sector provision even in systems that were based on public planning and delivery. In both high-income and low-income countries, governments have introduced user charges as a measure to control the growth of public expenditure. Proponents say that these changes have made healthcare more efficient and have given consumers choicer while critics point to data that show that inequality in the access and quality of healthcare has risen since well-off and well-educated people are the ones who are best able to handle market healthcare systems.<sup>15</sup>

Lastly, globalisation has brought about more intense global competition for educational policies through performance evaluation, international comparisons, and the education-to-employment alignment in education. The OECD's PISA tests have become so influential that they are considered one of the main reasons for governments' education reforms as they try to improve their country's ranking.<sup>16</sup> Furthermore, in certain countries such as the US and the UK, the privatization of colleges and the shifting cost of higher education to students via tuition fees supported by loans have resulted in large debts for young people.

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<sup>14</sup> Income support, redistribution and work incentives, *available at*: <https://www.oecd.org/en/topics/income-support-redistribution-and-work-incentives.html> (last visited on March 20, 2026).

<sup>15</sup> Ronald Labonté, "Globalisation and Health", II *International Encyclopedia of the Social & Behavioral Sciences* (Elsevier Ltd., 2015).

<sup>16</sup> Sam Sellar & Bob Lingard, "The OECD and the expansion of PISA: new global modes of governance in education" 40 *British Education Research Journal* 917 (2014).

### 4.3. Labour Market Policies

In the globalization era, labour market policies have been fundamentally changed, among which the most typical change is the shift of employment protection to employment flexibility. This has led to a lot of countries to reform their employment protection laws to make layoff costs cheaper, promote temporary and part-time contracts, and shrink collective bargaining agreements coverage. These reforms portray labour market flexibility as a competition tool in a global economy but, in fact, evidence points out that efficiency gains from deregulation are generally accompanied by a rise in insecurity and inequality.<sup>17</sup>

### 4.4. Privatization Trends

Privatisation of public enterprises and social services has been one of the main features of the neoliberal policy agenda promoted by international institutions and accepted by governments of all political colours since the 1980s. The privatisation of utilities, telecoms, and transportation has brought in government revenues and in some ways resulted in greater efficiency, but it has also made people worry about quality, availability, and accountability. Privatisation in social services sectors like healthcare, education, and social care has been going on quite unevenly, with major differences between countries and service types.<sup>18</sup>

## 5. POSITIVE IMPACT OF GLOBALISATION

### 5.1. Economic Growth and Increased Revenue

Although globalisation challenges welfare states, it has also had some good impacts that could, at least theoretically, help with social welfare. Global trade and investments have played a major role in economic expansion, resulting in higher overall incomes and a bigger pool of tax money for welfare spending.<sup>19</sup> The examples of South Korea Taiwan Singapore, and China, the latest rise of the East Asian economies,

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<sup>17</sup> Dr. Taru Mishra, "Concept of Globalization & its Impact on Economical Development", *7 International Journal for Multidisciplinary Research (IJFMR)* 2025.

<sup>18</sup> D.W. MacKenzie, "Review of Globalization and Its Discontents, by J. E. Stiglitz" *120 Public Choice* 234 (2004).

<sup>19</sup> Impact of Globalization: Economic, Social, Political and More, *available at*: <https://www.oliveboard.in/blog/impact-of-globalisation/> (last visited on March 20, 2026).

show that opening to the world economy can lead to fast economic growth and, if combined with the right social policies, great progress in human development indicators.

## **5.2. Knowledge and Technology Transfer**

Globalisation opens the door for the dissemination of knowledge, technology, and the best ways in social policy design and implementation. Through access to social policy innovations initiated in advanced economies, developing countries can also adapt such policies without going through the costly trial-and-error methods that welfare states had to endure for their early evolution. The role of international organisations is very significant in this knowledge transfer by helping to document and disseminate evidence on effective social programmes and the building of administrative capacity of government agencies in lower-income countries.<sup>20</sup>

## **5.3. Improved Efficiency in Service Delivery**

The introduction of market mechanisms and competitive pressures into social services, because of globalisation-inspired reforms, can lead to enhanced efficiency in service delivery. Comparing with global best practices has motivated health systems to implement clinical protocols based on scientific evidence and to upgrade quality management systems. School systems competing have, in certain situations, led to the improvements in student achievements. New technologies for service delivery, such as digital health records, online education platforms, and e-government, have enhanced accessibility and lowered transaction costs.<sup>21</sup>

# **6. NEGATIVE IMPACTS ON GLOBALISATION**

## **6.1. Potential to Reduce Public Spending**

The most directly documented negative impact of globalisation on welfare states is the creation of fiscal and political pressures that tend to push for a cut in public spending. Due to the mobility of capital, tax competition, and the impact of global

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<sup>20</sup> Impact of Globalization on India, *available at*: <https://www.civildaily.com/impact-of-globalisation-on-india/> (last visited on March 20, 2026).

<sup>21</sup> *Supra* note 15.

financial markets, governments' ability to raise revenue has been limited, resulting in structural fiscal pressures that manifest as calls for expenditure restraint. For example, the Eurozone sovereign debt crisis that hit Greece Portugal Ireland, and Spain, resulting in harsh austerity programmes, demonstrates how international financial markets can force national social policy decisions to be heavily restricted.<sup>22</sup>

## 6.2. Rising Inequality

The link between globalisation and inequality is one of the most discussed issues in political economy today. The results from research mostly indicate that this era of globalisation has resulted in an increase in income inequality within many countries, whereas it has reduced inequality among countries by allowing the emergence of China, India, and other economies to be very rapid.<sup>23</sup> In the developed countries group (OECD), the part of wages in the national income has gone down while the share of profits has risen, which reflects the greater bargaining power that employers gain through the capital mobility that workers don't have. The disappearance of middle-skill jobs has added to the rising wage gap, with very high-income growth at the top of the distribution and low or no growth of income at the bottom.

## 6.3. Job Insecurity and Informalisation

Globalization has led to increasing the number of precarious, non-standard jobs, a phenomenon that is often referred to as the informalisation of labour markets. As companies try to decrease their labour expenses and become more flexible to better cope with competitive pressures, they have increasingly made use of part-time, temporary, and platform-mediated employment arrangements. These forms of employment are attractive because they involve lower non-wage costs and fewer regulatory obligations from the employer's perspective. Furthermore, in most developing countries export-oriented industries that have grown because of globalization mainly hire workers under informal, unregulated conditions, and these workers are not covered by labour laws or social security systems. Such informalisation

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<sup>22</sup> Praveen Rajpurohit & Hitesh Rajpurohit, "Negative Impact of Globalization" 1 *International Journal for Innovative Research in Multidisciplinary Field* (2015).

<sup>23</sup> Positive and Negative Impacts of Globalization, *available at*: <https://mybeta.ca/positive-and-negative-impacts-of-globalization/> (last visited on March 20, 2026).

of work therefore weakens both the political and fiscal bases on which comprehensive welfare states rest.

#### **6.4. The “Race to Bottom” in Social Protections**

The ‘race to the bottom’ theory asserts that economic competition among countries will gradually lead to the decline of social and labour standards as governments, in their efforts to attract investment and preserve competitiveness, reduce the regulatory burden on businesses.<sup>24</sup> On the one hand, empirical studies find that the race to the bottom has been much less severe than what some theorists had anticipated large, high-skill economies have gone on to maintain a quite generous welfare state. On the other hand, there is still running evidence of convergent pressures to lower corporate tax rates, to lessen employment protection, and to have social benefits more conditional. The mere threat of moving away, even if a company does not actually carry it out, gives the corporation a lot of power in bargaining with the government and the workers.

### **7. COMPARATIVE ANALYSIS**

#### **7.1. Developed v. Developing Countries**

The effect of globalisation on welfare states differs dramatically between developed and developing countries. In developed economies, globalisation has led to the emergence of adjustment pressures on welfare states that were institutionally very well-established, politically embedded and administratively capable. As a matter of fact, these welfare states have been highly resilient, to the extent that they have been able to modify their institutional forms as a response to the new pressures that might have led to their complete dismantlement. In developing countries, globalisation has, in many cases, been intertwined with the welfare state building project in a way that has led to quite substantial constraints, among which are limited fiscal capacity, institutional weaknesses and the restrictions imposed by external financial assistance conditionalities, which have both in the past and at present even restricted,

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<sup>24</sup> Paul B. Stephan, “Book Review of Has Globalization Gone Too Far? By Dani Rodrik. Washington, D.C” 18 *Northwestern Journal of International Law & Business* 246 (1998).

to some extent, the development of social protection systems.

## 7.2. The Nordic Model – Flexicurity and Resilience

The Nordic countries, like Denmark Sweden, Norway, and Finland, are the most outstanding examples of how welfare states have remained strong in the era of globalization.<sup>25</sup> This is possible only because these countries show great economic openness and yet have some of the world's most generous and universal social security systems. Their success is due to several institutional advantages. For instance, high levels of trust and social cohesion which help in reducing administrative expenses and political divisions, a well-educated and skilled labour force that allows for labour market flexibility with no compromise on job security, well-established industrial relations systems that help in wage coordination and avoid harmful distributive conflicts, and political institutions that support cross-class coalitions in favour of universal welfare programs.<sup>26</sup>

The Danish model of 'flexicurity' that effectively blends flexible employment contracts with high unemployment benefits and active labour market policies has been successful in accomplishing both high employment levels and low poverty.<sup>27</sup> This model shows that labour market flexibility and employment security do not have to be at odds with each other and it serves as a possible example of addressing the conflict between economic openness and social protection. On the other hand, it is based on certain institutional elements powerful unions, extensive collective bargaining, social trust and administrative ability that are not easily reproduced in various contexts.

## 7.3. The United States – Globalisation and Welfare Inadequacy

The United States represents a different trajectory from other countries. It started from very low levels of welfare and was very open to the world economy. This has resulted in workers without college education not getting their wages increased, a rise in income inequality, and less access to job-related health care and pension

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<sup>25</sup> The Nordic Model: Analysis of Welfare and Social Policies, *available at*: <https://mondointernazionale.org/focus-allegati/the-nordic-model-analysis-of-welfare-and-social-policies> (last visited on March 21,2026).

<sup>26</sup> *Ibid.*

<sup>27</sup>International Monetary Fund. External Relations Dept., "Danish Flexicurity Model Holds Lessons for Rest of Europe" 35 *IMF Survey* (International Monetary Fund, 2006).

coverage.<sup>28</sup> People who lost their jobs due to factory closures and the poor state of the welfare system voted for new political parties with a strong anti-globalisation message particularly in the American Midwest and South.<sup>29</sup> This political reaction against globalisation, which led to the rise of populist political movements, reveals the social consequences of deindustrialisation and the inadequacy of welfare states.<sup>30</sup> In the U.S. the Trade Adjustment Assistance program, often referred to as a model compensation mechanism, has been the subject of many studies. However, it has consistently been criticized for its failure to provide sufficient support to workers who have been displaced compared to the size of adjustment costs that they face.

#### 7.4. India and Developing Economy Challenges

India presents an interesting example among developing countries. It has been growing rapidly since the economy was opened in 1991; however, India has not been able to convert its overall economic growth into the welfare of its people on a large scale.<sup>31</sup> Most of the workers in the Indian economy are working in the informal sector which is largely outside the scope of labour laws and social security. The government has been unable to provide social services such as health, education, and sanitation to the people adequately due to lack of funds, inefficient administration, and political clientelism.<sup>32</sup> Although the government has launched the Mahatma Gandhi National Rural Employment Guarantee Scheme and the Pradhan Mantri Jan Arogya Yojana health insurance scheme as major steps towards increasing social protections, still the coverage is not universal, and benefits are quite low compared to other countries.

Across developing countries in general, the main drivers behind expansion of social protection especially has been a mixture of the country's own political environment, advice from international institutions and evidence of how effective conditional cash

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<sup>28</sup> Michael Reisch, "Social Welfare and Inequality: The U.S." 16 *Social Work and Society International Online Journal* (2018).

<sup>29</sup> Robert A. Moffitt, "The Deserving Poor, the Family, and the U.S. Welfare System" 52 *Demography* 729 (2015).

<sup>30</sup> Deindustrialisation and Its Impacts in the US, the UK, and France, available at: <https://mellonurbanism.harvard.edu/deindustrialization-and-its-impact-us-uk-and-france-0> (last visited in March 22, 2026).

<sup>31</sup> Y. Gurappa Naidu, "Globalisation and Its Impacts on Indian Society" 67 *The Indian Journal of Political Science* 65 (2006).

<sup>32</sup> *Supra* note 13 at 5.

transfers are in reducing poverty. These programs serve as a new model of social protection that is compatible with informal situations and low state capacity. In addition, increasing public awareness of inequality and economic vulnerability has pushed governments to adopt more inclusive welfare policies. Technological advancements, such as digital payment systems, have further enabled efficient delivery and monitoring of these programs, improving their reach and impact.

## 8. ROLE OF INTERNATIONAL ORGANISATIONS

The International Monetary Fund, World Bank, and World Trade Organisation have been major and at times controversial players in determining how globalisation and social policy meet in developing countries. IMF's structural adjustment programmes in the 1980s/1990s led to the conditions for aid being, inter alia, opening of trade and capital flows, lowering government spending, and selling off state companies.<sup>33</sup> Some critics including Joseph Stiglitz, believed that these imposed conditions not only substantially harmed societies by reducing public services and cutting safety nets, at exactly the times of economic downturns when the need for social protection was greatest.<sup>34</sup>

Over the years, the World Bank has changed the way it deals with social policy.<sup>35</sup> Initially, the focus was on cutting government spending and making the market freer in the 80s. Later, the Bank started to see that also providing social safety nets, investing in people's skills and ensuring continued and wide-ranging economic growth are very important. The Bank has pushed very hard for conditional cash transfer programs in Latin America and other developing countries, and these programs have spread quite widely also because of the Bank's efforts. At the same time, it is said that targeted programs are fiscally efficient, yet they may be lacking in terms of political sustainability and their normative breadth as compared to

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<sup>33</sup> Parmeshwar Ramlogan & Mr. Bernhard Fritz-Krockow, "Collaboration with the World Bank and World Trade Organisation", *International Monetary Fund Handbook: Its Functions, Policies, and Operations* 66 (International Monetary Fund, 2007).

<sup>34</sup> Stiglitz "Appalled" At IMF Policy, available at: <https://www.brettonwoodsproject.org/2000/06/stiglitz-appalled-at-imf-policy/> (last visited on March 22, 2026).

<sup>35</sup> Anthony Hall, "Social Policies in the World Bank: Paradigms and Challenges" 7 *Global Social Policy* (2007).

universal social provision.<sup>36</sup>

The trade disciplines of the WTO, which focus mainly on the trade of goods and services, indirectly affect social policy by limiting government's subsidies, procurement, and intellectual property regulations; especially when these are implemented to support public health and social development.<sup>37</sup> There have been controversies over pharmaceutical patents and access to medicines; and over the regulation of health and education services under the General Agreement on Trade in Services that reflect the tension between trade liberalisation disciplines and social policy goals.

## 9. POLICY RECOMMENDATIONS

### 9.1. Social Policy Innovations

Governments have devised various innovative social policy intervention in response to the challenges of globalisation. Active labour market polices such as employment counselling, skills training, wage subsidies, and job placement services have been increasingly used to aid workers displaced by restructuring in finding new jobs. Among the Nordic countries, Denmark with its 'flexicurity' model has shown that labour market flexibility and employment security are not necessarily opposing concepts. It has managed to attain both high employment rates and low poverty by linking flexible work contracts with ample unemployment benefits and effective labour market programmes.

### 9.2. Inclusive Growth Strategies

The idea of 'inclusive growth' which means economic growth that benefits a wide range of people instead of only those at the top of the income distribution, is being increasingly recognized by international organisations and national governments. Inclusive growth strategies focus on investing in public goods such as infrastructure, education, and health that not only enhance the production potential of

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<sup>36</sup> Marco Stampini, Nadin Medellín & Pablo Ibararán, "Cash transfers, poverty and inequality in Latin America" 4 *Oxford Open Economics* i481 (2025).

<sup>37</sup> What are the Social Impacts of WTO Trade Rules?, available at: <https://esg.sustainability-directory.com/question/what-are-the-social-impacts-of-wto-trade-rules/> (last visited on March 22, 2026).

an economy but also help to address inequalities in opportunities. Progressive tax reforms, including steps to curb international tax avoidance and evasion, form a key part of inclusive growth initiatives. Equally important is the overhaul of labour market regulations so that workers can get a fairer share of the gains from productivity.

### **9.3. Universal Basic Income**

Universal basic income (UBI) i.e. the idea of providing a regular cash payment to every citizen regardless of their employment status, or other circumstances, is undoubtedly getting great attention as a policy option to respond to the labour market changes stemming from globalisation and technological change. Supporters believe that UBI would offer a guaranteed minimum income that encourages risk-taking, lessens the stigma of being on welfare, and grants the feeling of security in the times of unstable and precarious work situations. Opponents worry that UBI if provided at an adequate level, would be unbelievably costly, may lessen people's motivation to work and would take away resources from targeted benefits that better address the needs. Experimental programmes in Finland, Kenya, and several other countries give some evidence about the impacts of UBI, although the size and the duration of these experiments place limitations on the ability to derive logical arguments for national implementation on a large scale.

## **10. CHALLENGES FOR THE FUTURE**

### **10.1. Digital Globalisation**

The digital economy is driving globalisation in a new and arguably more profound way, which in turn is creating new challenges for welfare states. Digital trade, in software, data, and digital services, is becoming a big part of the global economy and yet forms the least covered element of present international trade agreements. Platform-based business models make the conventional employment classifications and the social insurance contributory requirements obsolete while artificial intelligence has the potential to automate most of the cognitive tasks that humans perform. This will disrupt the labour market, and the extent of the change is currently unknown but might be quite extensive.<sup>38</sup>

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<sup>38</sup> Thomas James, "The Welfare State's Role and Challenges in providing Social Protection" 11 *Journal of*

## 10.2. Climate Change and Welfare

Climate change is a substantial problem that affects the sustainability of welfare state from different angles. The “climate change effects” like intense natural calamities, rising sea levels, disturbances in farming will mainly hit the poorest and the most vulnerable segments of the society which will in turn lead to increased pressure on social safety nets. Setting up a low-carbon economy entails structural changes on a large scale and not only will it lead to the disappearance of certain jobs in carbon-intensive sectors but also there will be a need for labour market supports. At the same time, new forms of distributive conflicts may arise. Climate change policies that aim at reducing carbon could become less fair if the revenue from such measures is not used to help lower-income households. Developing welfare systems that help to implement the transition to a sustainable economy in a fair manner is not possible only by separating environmental and social policies because existing institutional frameworks are not very well tailored to integrating both.

## 10.3. Migration and Demographic Changes

International migration, partly propelled by globalization, presents both opportunities and difficulties for welfare states. Migrants, especially young working-age migrants, can help make ageing welfare states financially sustainable by increasing the pool of contributors in relation to the recipient population. On the other hand, the integration of migrants into society and their fair access to social security involve complicated political and administrative issues. Populist right-wing politics in several countries have exploited the fears regarding migration and its effects on the welfare state to form alliances supporting welfare chauvinism limiting social benefits only to the native-born. Handling demographic changes through migration and at the same time preserving social solidarity and political support for universal welfare provision is one of the main political issues confronting welfare states in the twenty-first century.<sup>39</sup>

## 11. CONCLUSION

This paper has examined intricate and multiple aspects of the connection between

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*Political Sciences and Public Affairs* (2023).

<sup>39</sup> *Ibid.*

globalisation and welfare state from theoretical, historical, empirical, and policy viewpoints. Globalization works through trade liberalization, capital mobility, technological change, and multinational corporations, among others. As a result, it has put a lot of strain on welfare state institutions, their fiscal capacity, and the social policy decisions made. These strains have been reflected in various changes such as restructuring of social security systems, reforms in healthcare and education, deregulation of labour markets, and introduction of privatisation. Nevertheless, globalization has also been a source of economic growth, transfer of technology, and improvements in efficiency. Therefore, it can provide an understanding as well as support for the sustainability of welfare states.

The evidence reviewed does not support the strong form of 'race to bottom' hypothesis which depicts that welfare states in developed countries haven't been taken apart, and overall social spending has in many cases been kept at the same level or even increased. Still, the more detailed result of the investigation is that internationalization of capital and trade has led to major adjustments in the makeup, the extent, and the distributional effects of welfare states, thereby creating new types of vulnerabilities and social exclusion even in cases where the main expenditure figures have been kept unchanged. In fact, the welfare state has remained intact by means of changes that have turned the risks back to individuals, increased the conditions under which people get welfare, and have allowed the increasing inequality to weaken the redistributive effect of social provisions.

The best supported finding is that of conditioned path dependence. While globalisation has indeed changed the welfare state regimes, it has not done away with their diversity altogether. Different welfare states have come out of the process largely depending on their existing institutional setups, political agreements, and the type of their global economic integration. The compensation hypothesis is right in one respect, that is, it acknowledges that the demand side of welfare state politics indeed exists. It states that economic openness leads to an increased demand for social insurance. The political coalitions which are in support of social protection still have a great hold. However, this demand does not always lead to proper policy measures.

Looking ahead, a welfare state will be confronted with various challenges, which will

have mutual interactions and globalisation will amplify them. Some of such challenges are demographic ageing digitalisation growth of non-standard employment, climate change, and rise of populist nationalism. To address these well, not only institutional adaptation domestically will be required, but also international cooperation efforts in areas such as corporate taxation, social standards in trade agreements, and governance of digital platforms should be enhanced. The neoliberal framework that saw globalisation only as a natural, external, and uncontrollable force to which welfare states only must adjust, has been gradually overturned by the demonstration of its social costs and political effects.

The welfare state is not simply a passive victim of globalisation but rather a dynamic arena of political struggle, the creation of new rules and the process of social learning. Its destiny will depend on the decisions of citizens, officials, and institutions at different levels of governance. A more detailed argument will point out that globalisation is, in fact, the outcome of political decisions, e. g. the regulation of capital flows, the structuring of trade agreements, the control of multinational corporations, which can and should be changed to be more in line with social goals. The academic and policy framework for the future must still be focused on developing more adequate models for explaining how the advantages and disadvantages of globalisation can be shared more fairly, making sure that economic integration is used for the purposes of social justice and democratic solidarity rather than being destructive of them.