Global Capital, Political Institutions, and Policy Change in Developed Welfare States

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Introduction

At first glance, the welfare states of the rich democracies appear to be alive and well. Governments in these nations devoted an average of 24 percent of national economic product to social protection in 1995; in 1980, the comparable figure was 20 percent.[1] Indeed, most observers of social welfare policy agree with Paul Pierson (1994, 1996) that the systems of social protection created during the first half of the twentieth century, and dramatically expanded during the third quarter of the century, have not been dismantled during the current era. At the same time, it is equally clear that the welfare states of advanced capitalist democracies have come under serious pressure. During the 1980s and 1990s, conservative governments in Britain, the United States, and the other Anglo democracies have reduced the generosity of benefits, tightened program eligibility, implemented cost controls in service delivery, and encouraged privatization of some social insurance and many social services. Neoliberal policy changes have not been confined to these right-of-center governments; Swedish, German, and other Western European governments of all ideological complexions have on occasion reduced pension and other social insurance benefits, limited benefit indexation, and restricted eligibility for unemployment compensation and social assistance. They have also imposed budget caps, user co-payments, and other cost-control measures for health and social services. Moreover, these efforts to restrain the

[1] Data pertain to the 1980 and 1995 18-nation averages for total social welfare expenditure (OECD definition) as percentages of Gross Domestic Product. The nations are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. See Chapter 3 and Appendixes for full documentation and sources.

welfare state have occurred at a time of rising need for social protection (Clayton and Pontusson, 1998).

A widely discussed explanation of these changes in social welfare policy – and an argument with substantial implications for the viability of democratic institutions generally – is that globalization, especially the dramatic post-1960s rise in the international mobility of capital, forces all elected governments to roll back the welfare state.[2] In fact, contemporary neoliberal economists (e.g., McKenzie and Lee [1991]), Marxian analysts (e.g., Gill and Law [1988]; Ross and Trachte [1990]), international relations theorists (e.g. Cerny [1996]; Strange [1996]), and popular analysts (e.g., Greider [1997]) have all argued that the ability of international firms and financial institutions to shift assets across national borders forces incumbent governments (regardless of ideology or constituency) to reduce social welfare expenditures and to make social policy more market-conforming. This is purportedly the case because, in the presence of international capital mobility, governments must encourage internationally mobile firms to remain in the domestic economy, induce foreign enterprises to invest, and allay international financial market fears of high taxes, inflationary pressures, and economic inefficiency associated with moderate to large welfare states.

Scholars have also suggested that international capital mobility may weaken the welfare state through largely indirect mechanisms. Internationalization may force policy makers to reduce taxation of mobile assets and shift tax burdens to relatively less mobile factors; this may undercut redistribution as well as reduce the revenue-raising capacity of the state (e.g., McKenzie and Lee [1991]; Steinmo [1993]). Capital mobility may also undermine social corporatist institutions that support the welfare state (e.g., Kurzer [1993]; Mishra [1993]) and weaken or eliminate important elements of economic policy that promote the low unemployment necessary for maintenance of generous social protection (Huber and Stephens, 1998). The heart of the thesis is essentially an argument about "dimin-

[2] Numerous explanations for policy change in contemporary welfare states exist. Synoptic overviews of new welfare state pressures typically emphasize the adverse effects of post-1973 economic stagnation and rising unemployment, burgeoning public sector deficits, and demographic shifts (e.g., the "crisis of aging"); they also include the ascendence of neoconservative critiques of the welfare state and the weakening of trade union movements and social democratic parties (Esping-Andersen, 1996b; George and Taylor-Gooby, 1996; Rhodes, 1997; van Kersbergen, 2000). In addition, some observers argue that the transition from a Fordist to post-Fordist economy mandates a change to more efficiency-oriented welfare states (Jessop, 1996; Burrows and Loader, 1994).

ished democracy," or the declining capacity of democratic institutions to sustain public policies that depart from market-conforming principles in a world of global asset mobility.

The purpose of this book is twofold. First, I wish to subject the "theory of diminished democracy" to systematic empirical analysis; despite the emergence of theoretical and substantive critiques of the globalization thesis, there is still a paucity of rigorous empirical assessments of the theory. Second, I hope to develop and assess an alternative theory of how globalization has shaped contemporary welfare state change. My alternative argument brings political interests and institutions center-stage to argue that democratic processes and national institutions are fundamentally important to determining how internationalization affects domestic policy change. In the remainder of this introduction, I offer a brief synopsis of the globalization thesis, an outline of my theoretical argument, and an overview of my methodological approach. I conclude with a preview of subsequent chapters of the book.

Global Capital, Democratic Institutions, and the Welfare State: A Theoretical Overview

As I detail in Chapter 2, international movements of capital and the potential for such movements have increased dramatically in the post-1960s era. Total inflows and outflows of direct foreign investment in the developed democracies increased from a decade total of U.S. $390 billion in the 1970s to $474 billion in 1995 alone (United Nations Centre for Transnational Corporations 1996). Total borrowing on international capital markets by actors in the developed democracies was $732 billion in 1995 and only $4.3 billion in 1970 (OECD 1996). By the mid-1990s, the monetary value of annual turnover in bonds and equities between foreigners and residents has been estimated at 135 percent of GDP in the United States, 160 percent in Germany, and 1000 percent in the United Kingdom (Economist 1995). Reductions in some forms of interest rate differentials across countries and markets, as well as removal of legal restrictions on financial movements, have also proceeded rapidly. Today, few formal impediments to transnational capital flows exist in the large majority of advanced capitalist democracies.[3] What are the consequences of these dramatic increases in international capital mobility for welfare states?

[3] Trade openness, in terms of relative GDP shares of imports and exports, has also increased significantly. It has increased much more slowly than capital openness, however. For that

As indicated above, a large chorus of commentators has argued that capital mobility effectively enhances the power of increasingly mobile business enterprises over governments that seek to pursue relatively generous social protection and the tax burdens needed to finance it. Generally, the impact of rises in capital mobility on the autonomy of domestic policy makers to pursue their preferred social policies may be channeled through three mechanisms. The first and most commonly discussed linkage rests on the "economic logic" of international capital mobility; the second and third mechanisms effectively involve politics, and together they constitute the "political logic" of globalization. In brief, the economic logic argues that international capital mobility constrains the social policies of democratically elected governments through the operation of markets: in a world of high or near perfect capital mobility, mobile asset holders pursue the most profitable rate of return on investment and governments compete to retain and attract that investment. Thus, for example, analysts commonly cite the outflows of foreign direct investment in 1980s Sweden and 1990s Germany as sources of retrenchment pressures on these generous welfare states.

Politically, international capital mobility may constrain the social welfare policies of democratically elected governments through the routines of conventional politics; the credible threat of exit may enhance the conventional political resources of mobile asset holders and their interest associations. As I discuss in subsequent chapters, transnationally mobile business and employers' associations frequently lobby governments for rollbacks in welfare spending and tax burdens by citing adverse welfare state effects on profits, investment, and employment and the advantages of foreign investment environments. Second, international capital mobility may matter because neoliberal arguments for reforms of the welfare state are enhanced by appeals for policy changes that improve international competitiveness and business climate. As I demonstrate below, center-right governments often invoke the economic logic of globalization when

and other reasons discussed more fully in Chapter 2, I provide a much less thorough analysis of the welfare state impacts of trade in the present study. In addition, I do not offer a systematic study of impacts of the European Union. Part of the impact of Europeanization is captured by general analyses of international capital mobility and financial integration. Given the complexity of additional EU effects on the welfare state (e.g., such as those mediated through direct EU legislation, regulations, and decisions), however, I defer comprehensive analysis until later work. That said, in the case of both trade and Europeanization, I do provide some analysis of major hypotheses in subsequent chapters.

attempting to justify neoliberal welfare reforms. Finally, in several versions of the globalization thesis, these economic and political pressures, individually or in interaction, are thought to be most dramatically felt in relatively costly welfare states and those whose program structures depart substantially from market-conforming principles. Thus, the Nordic social democratic welfare states and the generous social insurance systems of continental Europe may be especially vulnerable to internationally induced pressures for "social dumping" or a "run to the bottom."

As an alternative to the globalization thesis, I advance the argument that the actual domestic policy impacts of international capital mobility are complex and variable, and are fundamentally and systematically shaped by national political institutions. In short, it is my contention that international capital mobility has actually had quite uneven impacts on domestic policy across democratic nations; the direction and magnitude of these effects are a function of the polity's systems of collective group and electoral interest representation and structure of decision-making authority, as well as the institutional structures of the welfare state. As the arguments and analysis of the subsequent chapters demonstrate, *the political institutions and programmatic structures of the larger welfare states of Western Europe are precisely those most likely to blunt the pressures of internationalization; the political institutions and programmatic structures of (relatively small) liberal welfare states are those most likely to facilitate some retrenchment in the presence of economic and political pressures generated by globalization. As a result, we are not likely to see substantial convergence around a market-conforming model of minimal public social protection.*

With regard to specific features of national institutions, the polity's system of collective interest representation – especially the degree to which the polity is social corporatist (as opposed to pluralist) – and the system of electoral representation – especially the degree to which it entails inclusive institutions such as proportional representation and multiparty legislatures and cabinets (as opposed to majoritarian institutions) – should matter. So, too, should the extent to which the political system consists of institutions that disperse decision-making authority (federalism, separation of powers) as apposed to those that concentrate policy-making power. Finally, welfare state institutions, themselves, should matter. Universalistic program structures (i.e., comprehensive population coverage with relatively high benefit equality) and occupationally based systems of generous social insurance (i.e., the "corporatist conservative" structure) have significantly different implications for the politics of welfare state retrenchment than do liberal program structures (i.e., disproportionate reliance on means testing and private insurance).

To expand, national political institutions, as the "new institutionalism" literature stresses, privilege some actors, strategies, and outcomes over others (e.g., Shepsle [1989]; Hall and Taylor [1996]). Perhaps most fundamentally, *political institutions determine the forms and quality of representation of domestic interests that are affected by the internationalization of markets*. Specifically, political institutions provide (or restrict) opportunities for representation for those that are adversely affected by globalization and for those ideologically opposed to – or materially harmed by – the common neoliberal responses to globalization. Institutional structures that promote encompassing interest representation of pro-welfare state interests – and, thus, provide veto points over policy change and other opportunities for interest articulation (short of formal veto power) – dampen the pressures for neoliberal reform attendant on globalization. Social corporatist (as opposed to pluralist) systems of collective interest representation and inclusive electoral institutions should be especially important to maximizing the representation of pro–welfare state interests in the face of economic and political pressures flowing from internationalization. So, too, are the administrative structures in the occupationally based welfare states of continental Europe. Extensive participation in the administration and routine social insurance policy making by labor, employers, and other constituency groups offers substantial opportunities for interest articulation not found in centralized state-administered programs. Fragmentation of decision-making authority (e.g., federalism, separation of powers) inherently creates veto points (and other representational opportunities) that are potentially useful to pro–welfare state interests.

As I illustrate in Chapter 2, however, and as a central feature of the theoretical argument of this volume, *political institutions not only have a "first-order" or relatively immediate effect of privileging particular interests (through representation as well as structuring strategic choices, interactions, and outcomes), they have "second-order" effects, or impacts that evolve over the long term of democratic political practice: institutions significantly shape the relative political capacities of collective actors and they promote a prevailing cluster of values, norms, and behaviors that condition the policy-making process.* For instance, as I detail in Chapter 2, historically embedded institutional structures of decentralization of power systematically create weak welfare programmatic alliances, fragment pro-welfare groups and parties, and suppress the formation of pro-welfare national political coalitions; they also reinforce norms of conflict and competition as well as antistatism.

More systematically, *national political institutions influence directly and indirectly the relative political strength of traditional welfare state constituencies* as well the relative strength of supporting and opposing coalitions of social groups and classes. Specifically, institutions affect the relative weight of conventional political capacities of pro-welfare state interests. By political capacities, I mean the size and unity of programmatic alliances, collective actors, and national coalitions; the ability of these interests to pursue coherent national strategies of establishment and maintenance of social protection; and the political resources of collective actors – organization, funding, and access. For instance, while systems of fragmented policy-making authority tend to weaken the political capacities of pro–welfare state interests, social corporatist interest representation and inclusive electoral institutions tend to strongly enhance them (e.g., votes, seats, and cabinet participation of social democratic and communitarian Christian Democratic parties). Universal and occupationally based systems of social protection tend to create cohesive national electoral coalitions of working- and middle-class constituencies who jointly benefit from generous social protection of these welfare states. Liberal program structures (e.g., significant means-tested programs and private insurance) will tend to fragment populations along social class lines.

In addition, as recent work by Putnam (1993), Rothstein (1998) and Visser and Hemerijck (1997) makes clear, national institutions have fundamentally important structural effects on prevailing cultural orientations that shape the national policy process. Specifically, *political institutions foster distinct clusters of norms, values, and subsequent behaviors that fundamentally structure the policy process and make particular policy outcomes much more likely* than others. That is, political institutions foster or impede certain constellations of norms and values important to social welfare policy change: some institutions (e.g., social corporatism, inclusive electoral institutions, universalistic program structures) tend to promote cooperation and consensus as well as support for (and confidence in) the efficacy and fairness of the welfare state. In this context, rapid and substantial welfare state retrenchment becomes inherently less likely. Other national institutional structures (the disproportionately means-tested structure of liberal welfare states) tend to promote competition, conflict, and distrust among constituency groups as well as to foster antistatist and/or pro-market orientations; in these contexts, retrenchment and neoliberal restructuring may be more readily forthcoming.

In sum, my argument is that political institutions determine the degree to which the economic and political logics of globalization contribute to welfare state retrenchment. Rises in capital mobility will be weakly or largely unrelated to welfare state retrenchment in polities where social corporatism, inclusive electoral institutions, and concentration of policy-making authority are strong and where welfare state institutions are characterized by extensive universalism or occupationally based social insurance. In polities characterized by pluralist interest representation, exclusive electoral institutions (e.g., majoritarian electoral systems), and historically embedded systems of fragmented authority, as well as liberal welfare state structures, internationalization will produce appreciable welfare state retrenchment.

The Methodological Approach: Combining Quantitative and Qualitative Analysis

In Chapter 2, I elaborate theory and derive specific propositions from the globalization thesis. I also develop a set of propositions from my alternative theory about how national institutional structures shape the domestic policy impacts of internationalization. To address these propositions, I employ both quantitative and qualitative analysis of the relationships between capital mobility, national political institutions, and welfare state change. I initially utilize pooled time-series analysis of data gathered from 15 developed capitalist democracies between 1965 and 1993. Pooled time-series, or "panel," analysis offers a powerful technique for employing both spatial and temporal variation in the phenomena of interest to systematically evaluate theoretical propositions about causal relationships; it also provides an especially useful instrument for evaluating hypotheses involving factors such as internationalization that significantly vary across time, and factors such as political institutions whose variation is primarily spatial (Hicks 1994).

I initially examine the direct welfare state effects of several dimensions of international capital mobility, and the ways in which national institutions mediate those impacts. As I discuss in Chapters 2 and 3, there are a variety of theoretical, conceptual, and technical reasons for employing multiple indications of international capital mobility. I focus on five core dimensions in the quantitative analysis: total transnational flows of capital;

flows of foreign direct investment; borrowing on international capital markets; liberalization of national controls on capital movements; and covered interest rate differentials. I also provide a summary assessment of hypotheses about the general welfare state effects of increasing trade openness; I do this by utilizing measures of aggregate trade flows and of trade between the developed capitalist democracies and developing (i.e., "low-wage") political economies.

I initially use one encompassing measure of social welfare effort; this makes feasible a concise analysis of the direct welfare state effects of multiple dimensions of international capital mobility and the policy effects of these multiple dimensions across several diverse institutional settings. While these initial tests provide a baseline evaluation of the study's central hypotheses, methodological and substantive considerations suggest refinements. Thus, I examine, in the presence of controls for structural and cyclical welfare determinants, the effects of global capital on several major dimensions of the welfare state: cash income maintenance, the social wage (i.e., income replacement for the average unemployed production worker), government health effort, and the public-private ratio of health spending. To further refine the analysis, I assess the impacts of internationalization on individual dimensions of the welfare state across the entire sample of countries and for subsets of nations according to welfare state type (universal, conservative, liberal). To compensate for weaknesses in any one statistical estimation technique for panel models (e.g., see Greene [2000]; Judge et al. [1985]; Stimson [1985]), I employ several estimators.

With respect to the measurement of national institutions, I use newly available data on cross-national and time-varying properties of political institutions. For instance, I employ recently collected data on 1950 to 1992 attributes of labor and industrial relations systems in the developed democracies in assessing hypotheses about social corporatism (Wallerstein, Golden, and Lange, 1997; see Chapters 2 and 3 and the Appendix for a full discussion of all data and measures). In deriving indicators of institutional properties of electoral systems and the structure of decision-making authority within the polity, I also utilize cross-nationally and temporally varying indicators of electoral and party systems, as well as constitutional structures. As a result, this study improves on past analyses of national political institutions and domestic policies that have usually relied on temporally invariant indicators of institutional dimensions.

This quantitative assessment of theoretical questions is in effect what Ragin (1987) calls "variable-oriented analysis," or the use of quantitative indicators of attributes of social systems to provide probabilistic assessments of causal propositions. While one can derive estimates from the quantitative models of the effects of causal factors (e.g., international capital mobility) on the phenomenon of interest (social welfare protection) in specific cases (i.e., nations), these estimates and the important inferences we derive from them are only as good as our conceptualization, measurement, data sources, and statistical estimation techniques. Moreover, despite the power of "large-*N*" quantitative tests of hypotheses to contribute to theoretical knowledge (e.g., by assessing the generalizability of propositions), the analysis often leaves many questions concerning causal sequences, actors' motivations and the interpretation of events by political agents, and how nation-specific contexts modify causal effects.

To further assess the central theoretical propositions of the study, I also utilize case-study analysis of internationalization, political institutions, and welfare state change in a sample of larger welfare states.[4] As noted, explicit in much of globalization theory is the notion that international financial integration is particularly consequential for larger welfare states that significantly depart from market-conforming precepts. In this view, the social democratic welfare states of the Nordic countries and the generous occupationally based social insurance systems of continental Europe are under especially strong pressures to reduce costs and restructure along market-conforming lines. On the other hand, my alternative theoretical argument highlights institutional features of these welfare states (e.g., universalism and its political correlates) that may buffer them from the economic and political pressures flowing from globalization. Social democratic and occupationally based welfare states tend to have moderate-to-strong social corporatism and inclusive electoral institutions; to a less conforming degree, they rank low on dispersion of policy-making authority. Thus, contra globalization theory, my argument highlights features of these welfare states and their broader political and institutional contexts that should make them less susceptible to the economic and political forces attendant on internationalization. In sum, these developed welfare states are theoreti-

[4] The strengths and weaknesses of statistical analysis of quantitative indicators across a large range of relevant cases and the comparative case-study method have been widely debated. For an elaboration of the issues discussed here, and a variety of additional considerations in designing comparative political analysis, see the seminal work by Ragin (1987), as well as contributions to the 1995 *American Political Science Review* symposium and the influential work of King, Keohane, and Verba (1994).

cally the most important cases for understanding how globalization affects the domestic policy autonomy of governments in democratic polities.

I select seven specific countries for intensive case-study analysis. These include Denmark, Finland, Norway, and Sweden, effectively the universe of nations that most closely approximate the universalistic or social democratic welfare state model. I also select France, Germany, and Italy, which represent a majority of the nations with welfare states that approximate the corporatist conservative model of occupationally based social insurance. Several other nations could have been included – most notably, Austria, Belgium, and the Netherlands; however, these and others (e.g., Switzerland) are excluded from intensive case analysis for a variety of reasons.[5] Because the focal cases constitute a large and representative sample of the welfare states of interest and because material on excluded nations is included in general comparative analysis, case selection itself should not bias conclusions about the welfare impacts of globalization.

With regard to smaller, more market-conforming welfare states, the systems of social protection of the Anglo democracies generally adhere to the liberal or "residual" welfare state model (although see Chapter 2 on the heterogeneity of this group). These welfare states tend to be strongly pluralist and have majoritarian electoral institutions; the majority are also systems of dispersed policy-making authority. In subsequent chapters, they are used as a baseline for comparison in both quantitative and qualitative analysis. In addition, given that my theoretical predictions suggest globalization should be associated with some retrenchment in precisely these welfare states, I offer succinct case studies of internationalization,

[5] Cases were selected in order to balance three goals. First, it is desirable to assess central theoretical propositions in as many cases as possible to overcome the limits on generalizability inherent in "small-*N*" case analysis. Thus, as many universal and corporatist conservative welfare states as feasible were included. Second, with regard to feasibility, limits on resources, expertise, and length suggested some truncation of the list of nations selected for intensive case-study analysis. Third, to eliminate a variety of additional complexities in the analysis, I tended to exclude cases that did not relatively strongly conform to the broad programmatic attributes of universalistic or corporatist conservative welfare states, or cases where the welfare state and economic institutions and policy mixes that surround them were "atypical." For instance, the Dutch welfare state has strong elements of universalism, but some characteristics of the occupationally based program structure and a political context of Christian Democratic–led governments typical of the corporatist conservative nations (e.g., van Kersbergen and Becker [1988]; Cox [1993]). Austria's welfare state generally conforms to the corporatist conservative model, but has broad political economic institutions (e.g., a strong social democratic party and social corporatist institutions) that resemble the Nordic countries (Huber and Stephens, 1998).

institutions, and social policy change in liberal welfare states. For reasons outlined above, however, intensive case analysis is focused on the generous social democratic and corporatist conservative welfare states.

For each of the intensive case studies, I provide a chronological narrative of major changes in social welfare policy and their political economic contexts for years from the late 1970s to mid-1990s. Analytically, I address three central questions. First, I explore the degree to which rises in international capital mobility (and in less finely grained analysis, trade openness) can be linked to specific neoliberal welfare state reforms. Second, following theory to be developed in Chapter 2, I assess to what degree the influence of internationalization on welfare state reform is contingent on specific conditions such as government fiscal crisis. Finally, I provide an analysis of the degree to which national political institutions and welfare state structures themselves have blunted or otherwise shaped the impact of internationalization.[6] Overall, the case-study analysis provides a second body of empirical evidence that contributes to ultimate conclusions about the welfare state effects of globalization and the extent to which democratic institutions, themselves, shape these impacts.

The Organizational Structure of Analysis

In Chapter 2, I examine in detail the international capital mobility thesis. I initially provide an overview of the scope and character of internationalization of markets. Next, I offer an elaboration of the theory of diminished democracy and variations. I also succinctly review recent critiques of the globalization theses, such as the claim that the postwar political economic structures of "embedded liberalism," or the combination of international liberalism and significant domestic state intervention and social protection, continue to have relevance to the contemporary period. Finally, I devote the bulk of this chapter to the development of my argument that democratic politics and national political institutions determine the direction and magnitude of impacts of internationalization on the welfare state. I conclude the chapter with an actual empirical analysis of dimensions of national institutions.

[6] As a summary exercise, I also assess for each welfare state the degree to which 1970s–90s policy changes have actually produced a restructuring of the welfare state in the direction of the more residual, market-conforming welfare model and, if so, the relative weight of internationalization in that cumulative process.

In Chapters 3 through 7, I present the core empirical analysis of the central questions of this study. Chapter 3 provides the bulk of the quantitative analysis of the central assertions derived from the globalization thesis and my alternative argument. In Chapters 4 and 5, I offer a largely qualitative analysis of globalization and social welfare policy change in the large social democratic and corporatist conservative welfare states. In Chapter 4, I offer a case-oriented analysis of social policy reform in the Nordic political economies – Denmark, Finland, Norway, and Sweden. In Chapter 5, I replicate this intensive case-study analysis for predominately corporatist conservative welfare states, focusing principally on France, Germany, and Italy. In Chapter 6, I provide a much more succinct analysis of internationalization and welfare state reform in the Anglo democracies, focusing on case studies of Britain and the United States and summary analysis of Australia, Canada, and New Zealand.

In Chapter 7, I address the arguments that international capital mobility may contribute to the retrenchment of the welfare state through its impacts on the funding basis of the welfare state, on the strength of particular political institutions that support the welfare state – most notably social corporatism, and on the efficacy of macroeconomic policy to control unemployment and promote economic growth (and hence to prevent fiscal stresses that may lead to retrenchment). I extend arguments I have offered elsewhere about internationalization and tax policy (Swank 1998) and provide new evidence on international capital mobility's effects on tax burdens on capital, labor, and consumption, as well as on the tax share of GDP. In the case of the linkage between internationalization and social corporatism, I review the arguments, weigh the best recent evidence, and offer some new empirical analysis. Finally, I provide a succinct assessment – relying on the best recent treatments of the topic, as well as analytic summaries of my case study evidence – of the view that the decline in the efficacy of monetary, exchange rate, and related policies associated with rises in international capital mobility forces governments, through a deterioration in economic performance (most notably, escalating unemployment rates), to cut benefits, tighten eligibility, and otherwise restrain soaring welfare state costs.

In Chapter 8, I conclude with a summary and integration of findings from the quantitative and case-study analysis presented in the book. I also situate my arguments about the centrality of democratic institutions in shaping contemporary welfare state trajectories within recent welfare state theory. In this context, I illustrate the relationship of my theory with "power resources" theory and the emergent theory of welfare state retrenchment most closely associated with the work of Paul Pierson; I also offer conclusions on what I believe to be the essential components of an adequate theory of the welfare state in the contemporary era. Finally, I discuss implications of my findings for the future of the national systems of social protection in advanced capitalist democracies and for the autonomy of the nation-state in a world of global markets.