

The Influence of Openness on the Modus Operandi of a Small Welfare State

As already emphasised, the standard conceptual starting point of the welfare state literature is the closed economy of traditional mainstream economics. Capital and labour stand in contradiction to one another in a social setting whose structural architecture is historically derived from preceding historical transformations in the agricultural sector and the structural shift of employment and output from agriculture towards industry. This economic transformation brought with it a transformation of class structure, with the rise of a large class of blue collar workers, in the context of a wage labour market which commodified the individual and their labour power. The welfare state in its various forms was an attempt to ameliorate various consequences of the unfettered operation of capitalist markets, especially factor markets. Esping-Andersen (1996) identifies two contributions of the welfare state in particular:

- Use of transfers to modify the distribution of income via the market, which left some groups and individuals unable to sustain a standard of living appropriate to membership of modern society. This comprises both payment of monetary transfers to individuals who lack sufficient purchasing power, and direct provision in kind of services such as health and education which are often more efficiently supplied by the state than the market;
- The decommodification of labour that becomes possible when individuals can sustain their living standards without recourse to the market, so that participation in the labour market becomes a matter of genuine choice, rather than absolute necessity.

The small states setting exhibits major points of difference from the OECD societies reviewed by Esping-Andersen (1996):

- The political histories of most small states commence from major historical turning points, preceded by long histories of being embedded in colonial empires. The recent emphasis in the economic literature on the importance of path-dependence in explaining the economic and institutional structure and economic performance of contemporary political units (both national and subnational jurisdictions) (Acemoglu *et al.*, 2002, 2007; Bertocchi and Canova, 2002; Engerman and Sokoloff, 1997; Feyrer and Sacerdote, 2010; Hampton and Christensen, 2002; Kapur and Kim, 2006; Moore, 1966; Nunn, 2007) points to colonial experience and the decolonisation moment in each entity's history as fundamental to the present institutional set-up. More recently, the transition experience in Eastern Europe and the former USSR has been the focus of a similar literature for those societies (Blejer and Skreb, 2001; Petrova, 2007).

- Commodification of labour is not as serious a social issue in small states as it is in larger entities, because of the lesser degree of specialisation of labour and the greater residual linkages between urban and rural populations and economies. Until very recently in most cases, and still today in many, both blue collar and white collar wage and salary earners retain(ed) access to family enterprises in the informal and subsistence sectors to which they could retreat in times when alternative employment opportunities were closed to them. The employed worker in small states has generally two alternatives to accepting existing employment conditions: emigrate or return to informal sector activity in the village. As time has gone on and transnationalisation of kin, community and village networks has proceeded, emigration has increasingly become the default strategy of choice, with involution as the final resort. The point here is that the existence of both these exit doors from the waged and salaried workforce makes the issues of wage levels and work conditions less politically stressful in small states. Especially when the migration door is open, local employers face the discipline of metropolitan wage rates as the benchmark for local rates of pay, giving workers greater leverage in bargaining than they could obtain by organised union activity in closed economies of the same size. Insofar as labour organisation in closed economies was intrinsic to the emergence of Esping-Andersen's 'liberal' and 'social democratic' welfare states, one should not expect to find the same political dynamics in small states.

Since there are also large private sector transfer payments entering these economies in the form of remittances and investment income, the state is only one of (at least) two conduits through which international purchasing power is distributed to the home population. A potentially interesting question is whether the state's distributions are structured so as to equalise the final distribution of income and wealth, taking account of remittance incomes received and diaspora assets held by certain groups or families in the home population, or whether a universalistic approach applies to the distribution of the government's transfer income (with remittance and other privately received income added on top).

In Tuvalu in the 1980s, for example, employment in the government sector seems to have been allocated on a universal basis, so that most families had one public sector worker on a wage or salary funded largely from overseas transfers (mainly aid). Families which also had a member overseas working as ship's crew would thereby gain some margin in their income for the period of the seafarer's (limited) term of employment.

It is likely to be worthwhile to assemble government finance statistics to identify:

- The extent to which the total fiscal budget is funded from abroad via grants, royalties and subsidies;
- How aid is transferred into home purchasing power for the population at large – via straightforward transfers, via government purchases from local enterprises, or via direct payment of wages and salaries to individuals employed by the state sector;

- The proportion of government expenditure disbursed as wages and salaries to public sector employees and the relationship of the public payroll to the private sector one;
- The share of particular public services supplied in kind (particularly education and health) in the government budget;
- The size of the public sector relative to the total economy.

A related issue is the elasticity of migration with respect to local incomes and opportunities. A high migration elasticity or propensity means that the level at which social security income support levels (possibly including public sector wage rates) are set will have a significant impact on the number of beneficiaries. When the size of the recipient group is endogenous because of migration, the relevant benchmark for ‘adequacy’ of home living standards is apt to be not so much an absolute poverty or assets line, but rather the opportunity value of labour on the world labour market – in which case the responsibility of the home government for providing transfer payments sufficient to achieve this living standard locally is diluted by the ability of individuals to secure their living standards rights for themselves by moving.

For citizens of small states, the welfare state often operates at more than one level and in more than one location, since migration access to a metropolitan country (often the former colonial power) usually entails access to that country’s welfare state benefits. The welfare state benefits to which Pacific islanders aspire are those available in Australia and New Zealand, and the issue is to get over whatever thresholds there are for entitlement to them.

Large diasporas gain their income from a mix of wage employment, business income and welfare state transfers in the host country, with the balance among these varying by place and time. Remittances provide the financial linkage back to the home community – and fungibility means that remittances that come from social welfare benefits are indistinguishable from those funded out of wage packets.

A research programme on the flows of funds passing through migrant diasporas would clearly be worthwhile, albeit challenging to undertake.