SOCIAL VERSUS CORPORATE WELFARE

Competing Needs and Interests within the Welfare State

KEVIN FARNSWORTH

Social versus Corporate Welfare

Also by Kevin Farnsworth

CORPORATE POWER AND SOCIAL POLICY

SOCIAL POLICY IN CHALLENGING TIMES (*co-edited with Z. Irving*)

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Dedicated with love to Lata, Naina and Rohan.

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Preface and Acknowledgements

The following five stories appeared in the *Guardian* on 5 November 2010, the date when the first draft of this manuscript was finally completed. On the front page was a story about the US president's impending visit to India. President Obama stated that:

> The primary purpose [of the visit] is to take a bunch of US companies and open up markets so that we can sell in Asia, in some of the fastest-growing markets in the world, and we can create jobs here in the United States of America.

On page five of the newspaper was a story about the British video games industry and the recent loss of 9 per cent of jobs to foreign competitors. The Independent Game Developers' Association (TIGA), the main lobby group for the industry, stated that British companies are relocating to countries such as Canada and France because of the tax incentives they receive there. It was lobbying the government for a tax break to halt the decline in the industry. A spokesperson stated that:

> Implementing the tax break we're calling for wouldn't just create jobs in London, but in Dundee, Edinburgh, York, Brighton, Leamington Spa, Birmingham and all over the country.

Jeremy Hunt, the culture secretary, responded:

> We understand the critical importance of the video games industry . . . [but] we think that having competitive corporate tax rates overall is essential to be competitive on the world state, which is why the chancellor announced a reduction to 20 per cent of the corporate tax rate, which gives us the lowest corporate tax rate in the G20.

Page 13 ran a story on a band of activists that were taking direct action to close down Vodafone stores at the weekend because of the accusation that the Treasury had written off £6 billion in tax liabilities that the company had managed to avoid through various means.

On page 35 there was a story on the finance industry's response to proposed new tighter regulations on mortgage lending, which lobbies acting on behalf of the mortgage and construction industries were fiercely opposing. On the same page there was a story on the ailing car industry, which had seen sales of new cars slump by 22 per cent since the removal of state subsidies that were initially put in place in the aftermath of the 2008 financial crisis.

Such stories are not unusual. They highlight relatively small interventions by states into the function of business compared with the huge bailouts, tax breaks, tax cuts and takeovers that occurred in the US and elsewhere between 2008 and 2010. But they do illustrate one simple fact: government is essential to the development, evolution and survival of business in general as well as of specific businesses, and this dependency is born as much of the many varied, small-scale and relatively innocuous actions undertaken by governments on a daily basis as the huge headline-catching corporate rescues. Governments underpin markets, and do so even where resources are tight and where ideology appears to rule out such interventions. They commonly hold the view that what is in the interests of business is in the interests of all. As a result, they assist fledgling industries and engage in marketing activities on behalf of well-established ones. Tax cuts are granted but not considered to be a form of assistance to corporations, even though the overall effect is the same and even where taxes on citizens have to rise to compensate for the losses. Such policies and programmes are the mainstay of what I will call the corporate welfare state.

This book on corporate welfare has been some years in the writing, and I am grateful to a number of people who have helped me to make sense of some of the evolving ideas and have provided insightful comments on earlier drafts – Gary Fooks, Chris Holden, Meir Shabat, Ian Gough and Zoe Irving. I would also like to thank Phillipa Grand at Palgrave, Devasena Vedamurthi and Kate Boothby at Integra Software Services for their collective patience and help throughout. I am most grateful to Lata Narayanaswamy, who has not only patiently helped me to work through some of the more esoteric and complex ideas in the book but also read drafts of it in its entirety at least twice and has helped to smooth some of its rougher edges. It is to her I owe the biggest debt. Any remaining rough edges are, of course, down to me.

Abbreviations

CBI	Confederation of British Industry
CME	Coordinated market economy
EC	European Commission
ECG	Export Credit Guarantee
ERT	European Round Table
EU	European Union
Ex-Im	United State's Export-Import Bank
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
IBO	International Business Organisation
IGO	International Governmental Organisation
ILO	International Labour Organization
IMF	International Monetary Fund
LME	Liberal market economy
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
R&D	Research and development
SCM	Subsidies and countervailing measures
SMEs	Small and medium-sized enterprises
SNA	System of National Accounts
UN	United Nations
WTO	World Trade Organization

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Introduction: The Social–Corporate Welfare State

Warren Buffet, then the third wealthiest individual in the world according to *Forbes Magazine*,[1] with an estimated wealth of $47 billion, gave an interview to the *New York Times* in 2010 where he stated the following:

> Just over two years ago, in September 2008, our country faced an economic meltdown . . . One of Wall Street's giant investment banks had gone bankrupt . . . A.I.G., the world's most famous insurer, was at death's door. Indeed, all of corporate America's dominoes were lined up, ready to topple at lightning speed: 300 million Americans were in the domino line as well. Well, Uncle Sam, you delivered . . . I would like to commend a few of your troops. In the darkest of days, Ben Bernanke, Hank Paulson, Tim Geithner and Sheila Bair grasped the gravity of the situation and acted with courage and dispatch.
>
> (Buffet, 2010)

The size of 'Uncle Sam's' intervention in 2010 was equivalent to around 85 per cent of total US gross domestic product (GDP). Although some of the interventions by the US and other governments did not require upfront funding, and although the costs of some measures will be recouped in time, the economic crisis that hit most countries in some way swiftly put paid to the myth – propagated during the previous neoliberal phase of capitalism – that businesses thrive best with minimal state involvement or interference. To give Buffet credit, he has tended to argue that markets do best with some state intervention. And, despite the rhetoric to the contrary, businesses everywhere depend heavily on their governments. The idea of the free market is a myth even within the most liberal economies. Up to half the total money spent each year by governments on various public policies is used to ensure that businesses can do business. Denmark spends almost as much on direct business subsidies as it does on defence, policing, and housing and communities combined.[2] The UK government provides more to businesses through various tax benefits and subsidies each year than it extracts in total corporate taxation. It also spends over a quarter of its entire budget purchasing goods and services directly from the private sector. In Sweden, one-quarter of the costs of social protection expenditure are directed towards employers. The analysis carried out for this book estimates that business' share of total public expenditure – the amount of public expenditure dedicated to meeting the needs of business – accounts for at least 40 per cent of total public expenditure in the major economies, with the highest corporate welfare bill, as a percentage of total expenditure, being recorded in the US.

Given that businesses depend so heavily on their governments, it is disappointing that parts of the business community appears so reluctant to pay for its share of public expenditure. It is more usual for business people to argue that they should be allowed to produce and trade with fewer costs and lighter restrictions. However, as this book seeks to make clear, corporations benefit a great deal from a range of public policies and it is important that they bear a greater share of the costs involved. The fact that such benefits are under-researched, underestimated and largely hidden from the public gaze fuels the argument that public policies primarily benefit people, and poor ones at that, and the costs of public provision should fall onto citizens. This book challenges this argument. It argues that history, policy legacies, economic structures and institutional settings are important in shaping welfare outcomes that favour private businesses. It promotes the reconceptualisation of the welfare state to take into account corporate welfare – the various forms of state benefits and services that help to satisfy business needs. In this respect, it belongs to a tradition of analysis that seeks to push the boundaries of welfare state studies. It also stands in stark contrast to the majority of work carried out on welfare states, which centres on a relatively narrow conception of welfare as social provision and the extent to which various collective interventions meet the needs of the individual through a handful of programmes – typically housing, social security, health, pensions and the personal social services. There have been notable exceptions to this, of course. Titmuss (1976) pointed to the importance of fiscal welfare alongside social and occupational welfare and, later, Goodin and Le Grand (1987) reminded us that the middle classes extract as much, or even more, from welfare provision as lower income groups. During the 1970s, neo-Marxists pointed to the role of social welfare in stabilising and promoting economic development and system legitimacy (O'Connor, 1973). Others, including Cohen (2000), Gough (2000, introduction) and Wetherly (2005, chapter 4), have discussed the ways in which governments service the needs of businesses, and still others have discussed the important role that social policies play in competitive markets (Cao, Prakash and Ward, 2007, pp. 301–27; Hudson and Kühner, 2009, pp. 34–46). And more recently, in the light of the post-2008 economic crisis, academics, journalists and campaign organisations have examined the importance of subsidies, bailouts and in-kind assistance, confirming that it is now more important than ever for social and public policy and to fully engage with the study of state support for corporations.

But there are also key factors that increase the reticence on the part of social and public policy academics to engage in such a debate. The first relates to terminology. Here the concept of corporate welfare is embraced and its wider use advocated, but this is not to underestimate the problems associated with the use of the term and its definition. Corporate and social welfare are viewed here as forms of state provision that exist along a continuum of need satisfaction, with the needs of citizens and the needs of business at either end of the spectrum (see below). Provision simultaneously as well as variously meets the respective needs of individuals and corporations. Second, embracing corporate welfare means extending the focus of social policy to state provision that is primarily aimed at corporations rather than individuals, with which many within the subject would struggle. Third, the value of corporate welfare is often hidden by governments and is misunderstood and under-researched by academics. This means that the precise costs of corporate welfare are, as yet, difficult to establish.

The use of the term corporate welfare is both controversial and challenging. It is controversial because it stretches the concept of welfare to its limits, beyond that which many working in the broad area of welfare studies would accept as appropriate and legitimate. It is employed here because it helps to focus attention on two factors: (1) the welfare state fulfils a range of economic functions that go beyond the needs of individual citizens and (2) corporations are as heavily dependent on governments as people. At the risk of reification, there are also important parallels between businesses and citizens. Businesses require different levels of assistance during different stages of their life-cycle. They require protection from predictable as well as unforeseen risks. They are, at times, reckless and other corporations (and individuals) need protecting from them and they sometimes need protecting from themselves. Their inability to properly calculate what is in their own interests can lead to their demise.

Another problem with the concept of corporate welfare is that, in its most common usage, it draws on rather negative connotations. It originates in North America where 'welfare' is viewed, as Olson puts it, as 'a term of opprobrium' that suggests 'undesirable characteristics' and traits among its recipients (Olson and Champlin, 1998, pp. 759–71). Indeed, such views of 'welfare' explain its extension in North America from its original application to describe the 'undeserving' poor to its more recent application to the undeserving rich. On the basis of these associations, Egan cautions against using 'welfare' to describe public provision to private businesses on the basis that it risks further maligning the term (Egan, 2002).

The term 'corporate welfare' was, in fact, originally coined by the Canadian left in the 1970s as a way of drawing attention to the perceived inequity of benefits extracted from the state by powerful corporations to the detriment of the poor. One of the earliest documented uses of the term was by David Lewis who, in 1972 as leader of the New Democratic Party in Canada, railed against corporate welfare bums (Lewis, 1972). In the US, from the 1970s, Ralph Nader has run a series of high-profile campaigns against corporate welfare, and he has probably done more than anyone else to put the issue on the political map, arguing that it operated as 'a function of political corruption' designed to reward elite interests at the expense of those in genuine need (Nader, 2000). More generally, the American left has tried to focus attention onto corporate welfare in an attempt to draw attention to the perceived indefensibility of the continued attacks on social welfare during the 1980s and 1990s while corporate welfare remained largely intact (Olson and Champlin, 1998, pp. 759–71).

In propagating this thesis on the illegitimacy of corporate welfare, the left has been joined or, perhaps more accurately, subsumed in the debate since the mid-1980s by the political right. The concept of corporate welfare has steadily been captured by the right, which has sought to draw attention to the parallels between social and corporate welfare, which are both argued to distort markets and create government waste, inefficiency and corruption (Moore and Stansel, 2000). The ideological answer for the right is to impose deep cuts in both areas, although this does not necessarily translate into political practice.

Since the early 1980s, then, politicians and think tanks at both ends of the political spectrum have targeted and campaigned against corporate welfare programmes and even formed anti-corporate welfare coalitions. The CATO Institute, a right-wing US think tank, concluded in 2008 that 'it seems as if everyone is opposed to corporate welfare' (CATO Institute, 2008), but this is only partly true. As already alluded to, left and right oppose corporate welfare for different reasons. The left has tended to oppose corporate welfare more strongly whenever social welfare has come under strongest attack, pointing to the inequities of funding corporate benefits while cutting social security and pensions payments and arguing that corporate welfare is often more a product of political corruption than it is rational economics. The right generally concurs with this latter argument while disagreeing with any arguments to boost social welfare. As already noted, the key contention for the right is that many forms of public expenditure distort markets to the detriment of all.

For the concept of corporate welfare to be of use to us here, we have to liberate it from its roots. If we view welfare through a European lens, for instance, new possibilities arise. In this context, the term welfare is translated into a less stigmatised, much broader and altogether more useful concept. In most European nations, 'welfare' denotes state programmes that are designed to meet a broad range of human needs and insure against various unforeseen or unexpected risks. Thus, corporate welfare can similarly be defined as state provision that functions to meet some of the fundamental and supplementary needs of business and protect against various market-based risks.

Regardless of the ideological starting point, a strong thread that runs through the various approaches to corporate welfare is that the concept is more often than not defined narrowly according to its effects and outcomes. Dawkins (2002, pp. 269–91), for instance, defines corporate welfare as constituting only those forms of support that might be considered to be unfair, wasteful or inappropriate. For him, not all forms of subsidy constitute corporate welfare, but all forms of corporate welfare constitute subsidies. Nader (1999) put forward a similarly narrow definition of corporate welfare in evidence to the US House of Representatives in 1999. 'If a program involves the government giving more to private companies than it gets back . . . then it should be considered corporate welfare' (Nader, 1999).

Such 'outcome-based' definitions tend to focus narrowly only on those forms of corporate welfare that benefit individual businesses as opposed to businesses in general. The roots of this distinction lie in market-focused debates, especially in the area of subsidy studies. As Chapter 3 illustrates, work on subsidies, and this includes international legal frameworks, is often concerned only with those forms of public support that provide individual corporations with a competitive advantage over other (primarily foreign) corporations.

Broader definitions of corporate welfare are more useful to this study, and the best to date has been offered by Glasberg and Skidmore (1997, p. 2). They define corporate welfare as 'those efforts made by the state to directly or indirectly subsidise, support, or rescue corporations, or otherwise socialise the cost and risk of investment and production of private profits and capital accumulation of corporations'.

Thus, just as social welfare 'socialises' the costs of natural and human-made risks, such as childhood, old age, unemployment and industrial injuries (Titmuss, 1976), corporate welfare socialises the risks associated with doing business. An infrequently cited passage in the Beveridge Report also adds weight to this argument. Beveridge summarised an emerging consensus, which included some employers, in the early 1940s that argued that the state should ensure that the risks associated with certain industries – including the risks of unemployment, industrial accidents and disease – should be socialised rather than being borne by single industries. Beveridge (1942) summarised the argument thus:

> today the common argument is that the volume of unemployment in an industry is not to any effective extent within its control; that all industries depend upon one another, and that those which are

> fortunate in being regular should share the cost of unemployment in those which are less regular . . . In regard to workmen's compensation, the same argument has been put by the Mineworkers' Federation to the Royal Commission on Workmen's Compensation; as other industries cannot exist without coalmining, they have proposed that employers in all industries should bear equally the cost of industrial accidents and disease, in coalmining as elsewhere.

Without such intervention, many corporations, and even capitalism itself, would be unlikely to survive. And if it did, it would evolve to look very different to modern welfare states. Progressive opponents of corporate welfare fail to grasp the fact that, if corporations were not supported by the state in the way that they are, employment markets would likely operate in an even more cut-throat and ruthless way than they do at present (although it also matters how corporate welfare is distributed and who/what is in receipt of it). And in common with some parts of the left, the political right tends to view corporate welfare as stemming from the specific demands of political elites, including corporations. They do not view them as being driven by the systemic needs of capitalism as neo-Marxists and others who emphasise the importance of economic structures would understand them (we will return to this point below and in Chapter 2).

Viewed in this way, the benefits of utilising the concept of corporate welfare become clearer. Corporate welfare highlights the importance of state provision to businesses, the close relationship between social and economic policy, and the fact that state programmes serve a multitude of functions, some of which help to protect individuals and some of which help to protect businesses. By broadening the concept of welfare to include both social and corporate forms, the polarity that is usually endemic to welfare debates – between the poor and the wealthy, and business and labour – is bridged.

Moving beyond these broad approaches to corporate welfare, we are still faced with the challenge of defining exactly what constitutes corporate welfare services or provision. Glasberg and Skidmore (1997, p. 2) include the following in their list of corporate welfare benefits: 'corporate tax loopholes, reductions in capital gains taxes, subsidies to industries such as defense, contractors and agriculture, tax abatements to encourage corporate development, and bailouts of ailing corporations'. Nader (2000, p. 13) similarly includes: 'the enormous and myriad subsidies, bailouts, giveaways, tax loopholes, debt revocations, loan guarantees, discounted insurance, and other benefits conferred by government on business'.

While these definitions are more useful, corporate welfare is argued here to go beyond even these relatively comprehensive lists to include provision that Nader alludes to in his catch-all 'other benefits'. More specifically, as Chapter 2 outlines in detail, corporate welfare is argued to include public cash and in-kind benefits that accrue to businesses. This includes a range of provision, from schooling to retirement pensions, that is often considered only under the label of social welfare but that, in practice, is shaped as much by the perceptions of corporate needs as by the needs of people. For this reason, Chapter 2 argues that it is more useful and accurate to envision welfare provision as a continuum, with social and corporate welfare located at the extremes.

However, given the various problems and ambiguities surrounding corporate welfare identified here, readers might legitimately enquire whether the alternative concepts – subsidies, state aid (utilised by the European Commission), aid to industry (Corden and Fels, 1976); aid for dependent corporations (Shields, 1995); public support to industry (OECD, 1998); and wealthfare (Zahariadis, 2008) – might be preferable. But all of these terms suffer from their own ambiguities and limitations. Indeed, the best established of these concepts – subsidies – is no less unambiguous and uncontroversial. In his study of subsidies in the 1970s, Houthakker (cited in WTO, 2006, p. 48) stated: 'My own starting point was also an attempt to define subsidies. But in the course of doing so, I came to the conclusion that the concept of a subsidy is just too elusive.' The World Trade Organization's (WTO) 2006 World Trade Report reiterates that '[w]hat Houthakker wrote several decades ago still holds today' (ibid.). It appears, therefore, that there isn't an ideal concept that captures precisely the nature and cost of state support for corporations, but, reconceptualised, corporate welfare comes very close.

The social–corporate welfare state

Conceptually corporate welfare can be directly contrasted with social welfare, which consists of the various state benefits and services that directly or indirectly meet the needs of individuals. But it is also important to note that there is a close relationship between the two. As subsequent chapters make clear, social and corporate welfare can play complimentary roles in economic management, affecting the strength of the economy and the overall quality of life within nations. For this reason, welfare states might be more accurately conceptualised as social–corporate welfare states.

Corporate welfare can encourage the production and/or sales of certain goods or services, increase investment, provide essential support services to firms, rescue, resuscitate, stabilise and preserve essential industries and services, and reduce the end price of commodities for consumers. Such provision can also prevent firm closures, unemployment, wage cuts and reductions in occupational benefits, including pensions. Thus, corporate welfare can benefit citizens as well as corporations.

Social welfare similarly benefits both. Unemployment benefits are countercyclical and thus reduce the size and impact of economic downturns and their effect on both companies and their workers. Education and training programmes increase employee productivity and reduce the risks associated with freeloading (where firms can poach staff from companies that have invested in expensive training programmes); public health systems can increase employee productivity; social protection can increase labour market flexibility and boost employment levels, thus increasing incomes and consumption levels. Subsidised rail, bus and road networks, meanwhile, ensure the sustainability of essential transport services and facilitate the transportation of freight. Evidence also suggests that social welfare programmes reduce employment costs where employers would otherwise have to provide benefits – in the form of occupational benefits – that are not provided publicly (Farnsworth, 2004b, pp. 437–55). Thus, citizens and businesses extract real benefits from corporate and social welfare.

The historical context

History also matters, of course. The history of capitalism (and various capitalisms) are marked by multiple paths of development, where welfare systems have been shaped by and, in turn, have shaped these various paths. Social and corporate welfare have eased the transitions between different phases of capitalist development – for example, by helping to manage the fallout from the closure of old industries and assisting with the birth and development of new ones. Corporate welfare has also helped to protect industries from other risks, most notably foreign competition. Thus, various corporations that would otherwise have perished have survived only with assistance from their governments. Hacker (1982) succinctly retells the US version of this story:

> As the years went by . . . [the Federal Government] bestowed greater and greater benefits on the private sector. The depression of the 1930s saw an especially dramatic increase in the economic role of government. In the decades since, programs have been created to help virtually every major industry in the United States – transportation, housing, agriculture, shipping, scientific research, and even the arts.

The US is by no means unusual in putting in place such measures to help protect and preserve vulnerable sectors of its economy. The most familiar and controversial (at least glanced through contemporary eyes) are interventions to protect industries from foreign competition. Towards this end, governments have intervened at different times with physical barriers to trade (preventing foreign goods from entering the country) and financial barriers (in the form of targeted tariffs on imports in order to artificially increase their final price to consumers and so reducing the relative price of domestically produced goods). And more recently, subsidies have been used to reduce the relative price of domestically produced goods below their market price.

Historically, governments have, for obvious reasons, been reluctant to intervene in markets in ways that increased costs to them or wider society. In light of this, tariffs were attractive to governments since they simultaneously protected domestic firms and provided additional revenues for the state. Subsidies, in contrast, brought real costs and went against the grain of laissez-faire capitalism that dominated the leading economies until the 1930s. During this period, government expanded considerably with the introduction of a raft of measures that were designed to facilitate burgeoning economies, including establishing and extending the sociolegal foundations of the state, improving physical infrastructure and instituting methods of 'protectionism' for domestic firms (as already outlined). In other words, governments played an active role in facilitating the birth and evolution of capitalism even during the period of laissez faire, gradually displacing the prevailing view that major intervention in the macro economy was undesirable, dangerous and counterproductive.

It took the Great Depression in the US in the early 1930s to entirely displace laissez faire and the assumptions that markets could adequately self-regulate and that unemployment and poverty could be resolved simply through individual effort and hard work. Faith in markets and private businesses was abruptly replaced by distrust and scepticism. Governments also began to accept a much larger role in the regulation and management of capitalism, especially levels of aggregate consumer demand (Kaletsky, 2010). John Maynard Keynes – or, more accurately, Keynesianism, helped to establish the principle that government spending was essential to the smooth operation of markets, especially during economic downturns, and necessary if states were to avoid major and inevitable economic slumps. For Keynes, the best way to support markets in difficulty was through direct intervention to increase the sales, investment and productivity of corporations. As Keynesianism took hold, it facilitated the development of comprehensive social welfare and also comprehensive corporate welfare interventions, although the exact shape and extent of such interventions have varied between welfare states (as later chapters will illustrate). Thus, Keynes helped to build the foundations of the modern corporate-social welfare state.

Another crisis, the 1970s oil shock and the twin problems of high inflation and low demand, gave birth to a new wave of capitalism that survived until the post-2008 crisis. The 1970s crisis was distinguished by the collapse of the Keynesian 'golden age' and the ascendance of neoliberal politics at the international level, which sought to propagate renewed faith in markets while spreading scepticism about the positive role of government. The spread of neoliberalism went hand in hand with globalisation – the increased speed of economic and political integration at the supranational and international levels – that brought new challenges to state welfare programmes. Social welfare was accused of maintaining the unemployed in permanent states of idleness and of diverting resources away from the productive and efficient private sector to the unproductive and inefficient public sector. Corporate welfare, and subsidies in particular, were accused of propping up uncompetitive firms and boosting the fortunes of companies that would otherwise have perished in the face of global competition. Neither situation was, the argument went, in the long-term national interest. Yet, paradoxically, this leaner and meaner model of capitalism required more, not less, state intervention. Social welfare was necessary to protect those who lost their jobs as a result of the withdrawal of old-fashioned forms of state support, and corporate welfare was necessary to facilitate the birth and prosperity of the new companies that took the place of the old. For example, the withdrawal of subsidies for car manufacturers ensured the steady death of the British car industry from the early 1980s, but new forms of state support subsequently helped to persuade the likes of Toyota, Honda and Nissan to locate factories in the UK. Winning this investment required the promise of a host of new direct and indirect subsidies and other sweeteners to persuade these companies to invest in Britain rather than any other country in Europe.

Thus, even in the neoliberal era, businesses have remained heavily dependent on states and, while some forms of corporate support have been phased out, primarily in response to tighter international regulations concerning trade-distorting business subsidies, other forms of corporate welfare have taken their place (Zahariadis, 2008). As Chapter 3 argues, opposition to international regulations by nation states has also weakened their impact on both the level and the reporting of subsidies (OFT, 2004a, p. 4; Sykes, 2003). As a result, hidden forms of corporate welfare have increased since the 1980s according to Zahariadis (2008) and Blaise (1986) as states have tried to locate new ways of mitigating the impact of globalisation on companies and citizens. Glasberg and Skidmore (1997) further assert that there has been a shift away from 'social' welfare programmes towards 'corporate' welfare since the 1980s as states have struggled to manage.

The post-2008 global economic crisis appears to be radically transforming welfare systems again, just as each of the major crises did before (see Chapter 6). Although governments have presented the various banking and industrial bailouts that they have provided since 2008 as exceptional responses to an exceptional crisis, such moves have at least laid bare the claim that businesses can thrive without governments. Unlike regular corporate welfare benefits, however, the sheer size of the rescue packages introduced has meant that governments have had no choice but to publicly disclose the range and costs of the corporate welfare programmes on offer.

While the new political climate has had to accept that government was, and is, necessary for the salvation of global capitalism, however, the new discourse in many welfare states is that government is no longer affordable. In this respect, many welfare systems face a new fiscal crisis – where, in the light of the global recession that followed in the wake of the crisis, governments are clearly essential to maintain their economies but are incapable of raising enough revenue to sustain their interventions. As Chapter 6 illustrates, the costs of the post-2008 banking bailouts alone run into the hundreds of billions of dollars for some countries. According to the International Monetary Fund (IMF), as a direct result of the global economic crisis, the majority of OECD (Organisation for Economic Co-operation and Development) governments will have to make ongoing swingeing cuts in public expenditure until at least 2030 in order to restore financial stability (see Chapter 6). The impact on public services is likely to be huge. In the worst-hit economies, governments had to commit unprecedented amounts of public resources in efforts to rescue private banks, and they then argued that, in order to pay for their interventions, they would have to make unprecedented cuts in social welfare. The net effect, as Chapter 6 argues, has been a massive redistribution of resources away from social and towards corporate welfare.

Competition and conflict within welfare systems

The extent to which different interests can extract benefits from the state depends on a range of factors, as Chapter 2 illustrates. Different interests certainly compete over resources within societies, but the struggle over welfare isn't as straightforward as might be assumed. The extent to which provision is challenged and the extent to which there is a trade-off between forms of provision depends on the prevailing confluence of political institutions as well as economic pressures and realities. Conflict may occur at various levels and between various interests:

(1) Pure forms of corporate welfare may compete with pure forms of social welfare. At the extremes, business and labour interests may compete for resources and interests may collide. There is not a simple and predictable trade-off between corporate and social welfare, but conflict is more likely to occur between the

purest forms of both types of provision. Labour interests will oppose most readily provision that brings most benefits to business and fewest benefits to individuals. The opposite scenario is also likely to be true, where business is most likely to oppose pure social welfare.

(2) One form of corporate welfare may substitute for another. States may meet corporate need through, for example, subsidies, additional investment in training provision or a relaxation of regulations (or any other combination of benefits).

(3) Corporate recipients of welfare compete with consumers. State provision for some companies will tend to stifle competition and can result in higher prices.

(4) Corporate recipients of corporate welfare compete with citizens, where some state resources are inevitably taken from citizens and redistributed to businesses.

(5) Mobile companies conflict with immobile corporations, where the former are able to exercise greater structural power in negotiating welfare deals and/or are able to seek out better 'welfare' deals elsewhere, and where the latter are likely to bear some of the costs of this.

(6) Corporate welfare recipients conflict with non-recipients. Corporations that are able to negotiate assistance or draw heavily on state services may be able to gain a competitive advantage over others and thus boost their profits.

(7) Favoured sectors conflict with unfavoured sectors, where the former group is likely to be able to attract higher levels of assistance than the latter. Some sectors, such as agriculture, the nuclear industry and the steel industry, tend to be heavily subsidised in all states, partly for historical reasons and partly for reasons of national security. The costs are borne by non-subsidised corporations and/or the general taxpayer.

(8) International trading companies conflict with national trading firms. Firms that compete more directly with imports are likely to argue more fiercely for subsidies in order to 'level the playing field' (Snape, 1991, pp. 139–64). In any case, whether they receive subsidies or not, they are likely to argue that subsidies provided by other governments should be challenged.

(9) Labour-intensive companies conflict with less labour-intensive firms. The former face higher wage and non-wage costs and

are likely to push for higher levels of state investment in human capital as well as wage subsidies or lower taxes on labour, through, for example, lower National Insurance rates. The relative dependence on both of these will vary according to the relative skill levels required (e.g., higher skills will imply higher training costs for the firm but reduced use of low-wage subsidies).

(10) Struggling firms conflict with prospering ones, where the former are likely to campaign more heavily, and obtain greater assistance, than the latter.

This list is not exhaustive but it provides some insight into the nature of tensions that arise as states strive to balance corporate and social welfare. Moreover, because of these tensions and divisions, consistent, coherent and clear inter- or intra-class positions on corporate welfare often fail to emerge. Even if such positions emerge at any given point in the economic cycle, they are unlikely to be sustained over time. Firms and other interests may change their own positions over time, depending on their economic positions during the economic or industrial cycle. Executives in the same firm may oppose corporate welfare during one stage of its existence but come to depend on it at other times. A parent company may also change its view depending on its stage of development (as discussed above) and its overall portfolio (where it may come to depend more heavily on the state as it engages in future takeovers or mergers with companies that bring new or different future needs). Peak-level business organisations – business interest associations that represent the largest firms, trading in all sectors, and at the highest levels of government – are likely to be the most conflicted since they will, on the one hand, represent firms that obtain large benefits from the state and, on the other hand, represent those that directly suffer as a result of subsidies paid to other operations.

Gauging the size of corporate welfare

Now that we have reviewed some of the contextual background we can return to the issue of how we might measure the relative size of social and corporate welfare. As already alluded to above, this is relatively straightforward in the case of social welfare. Expenditure on what is traditionally viewed as constituting 'the welfare state' is well documented and debated. This is not the case with corporate welfare. Those problems already highlighted concerning the conceptualisation and analysis of public provision for businesses are compounded by the fact that corporate welfare is largely hidden from the public gaze. Governments and corporations have often conspired to ensure this is so, and business and other elites have succeeded in portraying the poor as the main beneficiaries of state largesse. Even subsidies, the most transparent form of corporate welfare, have been obscured or hidden by governments keen to diffuse international and domestic attention away from such support. The weakness of international rules have only added to the problem, since they require the reporting of only a very narrow range of state support services to firms (see Chapter 3). Even relatively large sums involving direct assistance to companies are obscured and only a small proportion of total support that accrues to corporations is openly recorded and publicised in official data. As Moore and Stansel stated in their testimony to the US Congress in 2000, 'Currently it is virtually impossible to keep an inventory of what companies are getting, how much, from how many agencies.' This is despite the fact that the US is actually one of the most open as far as corporate welfare declarations are concerned.

Similar sentiments have been echoed in the UK by none other than the Office for Fair Trade (OFT), a government department. The OFT conducted an analysis of subsidies in order to ascertain their potential impact on trade, and it conceded that 'There is no single definitive source of data about spending on subsidies to businesses in the UK' (OFT, 2004b). As a result, this data failed to 'present a clear view of the total amount of subsidy provided by the public sector to private business' (OFT, 2004b). Alan Simpson, as a sitting MP in the UK Parliament, painted a murky picture of corporate welfare in 1999:

> Once [it] has been approved – in a process that takes place well away from the public eye – there is no procedure that might allow the public to raise any questions about the grant [to business] before it is released. There is not even a legal requirement for the government or its agencies to reveal the amount of the subsidy awarded. To this day, no one knows for certain how much John Major's government doled out to Siemens, the German electronics giant, in development grants, infrastructure

> subsidies and the like for its semi-conductor plant on North Tyneside which the company closed in July 1998 – although a sum of £200 million would appear close to the mark . . . Siemens's semi-conductor plant . . . was supposed to bring 2,000 new jobs to the North-West. Its closure, following the collapse of the world-wide semi-conductor market, means that the £200 million, which might otherwise have been spent on creating or securing other jobs in the region, has effectively gone down the tube. Many now believe that the company grossly miscalculated the viability of its product in the world semi-conductor market.
>
> (Simpson and Hildyard, 1999)

Such ambiguities have led not only to a lack of public accountability but also to uneven reporting mechanisms. As Chapter 4 reveals, the most conservative official estimates indicate that business subsidies average just over 1 per cent of GDP in OECD countries but, as this book illustrates, the size of corporate welfare provision is far greater than this. Ambiguities in the definition of the various forms of corporate welfare, however, directly lead to similar ambiguities concerning estimates of its value. US subsidies are calculated by the OECD to have been worth around $33 billion in 1995 (OECD, 2001), for instance, while estimates by the CATO Institute and the Centre for the Study of Responsive Law revealed corporate welfare in the US to be in the region of $85 billion and $167 billion, respectively (Hemphill, 1997, p. 2). These estimates may be compared with the sums of money provided to underwrite business failures in the post-2008 bailouts: the largest three US car manufacturers alone were given more than $88 billion in assistance (see Chapter 6). In Germany, there are four 'official' channels through which subsidies are disclosed, and each disclosure provides widely different estimates: €1.6bn (disclosed to the WTO); €17.2bn (disclosed to the European Commission); €29bn (in its own national accounts); €55.4bn (in its biannual government subsidy report) (Thöne and Dobroschke, 2008).

These various estimates illustrate the problem at hand. Although the limited availability of reliable data does place limitations on the scope of any analysis, the alternative – to ignore corporate welfare entirely in discussions of public policy – should no longer be considered a viable option. Towards this end, three tasks have to be carried out. First, a clearer conceptualisation of corporate welfare is needed.

Second, we need clearer estimates of its value, based on the best available data. Third, there needs to be a thorough going audit of corporate welfare within each nation state. This book focuses primarily on the first two tasks.

Conclusions and structure of the book

This introductory chapter has argued for the extension of the concept of welfare and welfare state to incorporate the various forms of direct and indirect state provision that benefit private businesses. The configuration of provision within different states is highly variable: different states with different histories, institutional configurations, and competing powers and interests contain different patterns of welfare provision. The relative distribution of state provision between citizens and corporations also varies over time. There may be trade-off effects between various forms of welfare; an increase in one may result in the reduction of another, although this is not, as we will see, always the case. Moreover, different interests may compete over resources to boost their particular welfare needs and/or preferences so that welfare systems reflect the relative success of diverse interests in promoting and defending their own particular interests. This competition of resources may not follow obvious lines between business and citizens, but it is as likely to occur within these classes – between sectors and firms of different sizes within different geographical locations. The following chapters illustrate in more detail the various ways in which corporate and social welfare collide and cohere.

Chapter 2 outlines and discusses the main forms of social and corporate welfare and the relationship between the two. It presents a continuum of state welfare, extending from direct state provision for businesses at one end (corporate welfare) to direct benefits for citizens (social welfare) at the other. This is important, the chapter argues, in highlighting the fact that very few forms of state provision bring benefits that are limited to either private business or citizens. Who, or what, benefits from state provision depends not so much on its categorical form but on the way in which it is developed and delivered, and different varieties of capitalist state provide welfare in different ways, in different volumes and with different goals. The particular configuration of state provision will determine how far it meets the needs of citizens and private businesses and how, and to what extent, different interests will compete with each other over state resources.

Chapter 3 examines the international context of welfare provision. It begins with a discussion of globalisation and its impact on power relations and the shape of welfare states. In so far as it has increased competition between states, globalisation has tended to promote corporate welfare above social welfare. At the same time, it has pushed politics upwards in order to facilitate the liberalisation of global markets. This, in turn, has tended to depress certain forms of corporate welfare – in particular, 'trade-distorting' corporate subsidies. Government intransigence has prevented the eradication of corporate subsidies, however, and there is some evidence to suggest that global governance has succeeded primarily in pushing corporate welfare under the table. Rather than reduce state support for corporations, governments have tried to locate other ways of supporting businesses that comply with international regulations. Since disclosure of certain corporate support measures risks international action against governments, there is an incentive to keep subsidies hidden. In addition to examining international governance relating to subsidies, Chapter 3 looks at international discourse where there are much looser regulations in place – primarily social welfare provision. This confirms the greater emphasis on provision that fulfils economic and corporate needs. This is also apparent if we focus on international business and trade union perspectives that do not suggest any real indication of class-based opposition to corporate and/or social welfare from either side. Rather, business and trade union interests have their own aims and interests as far as state provision is concerned; both want to steer welfare towards their own ends and both want the other to bear a greater burden of the costs of provision. In response to these various pressures and global discourse, state provision has tended to be pushed in the direction of business preferences.

Both exist within a powerful global discourse, and the latter in particular is subject to more wide ranging (but relatively weak) international regulations. The chapter then moves on to discuss the development of social and corporate welfare within different types of welfare state. It examines the shape of welfare that emerged in the post-Second World War period and the institutional relationships that have since been established between social and corporate welfare within broad categories of national economies.

Chapters 4 and 5 draw on available data in order to carry out an audit of corporate and social welfare within the major welfare states. Chapter 4 seeks to investigate the shape of different welfare systems and the costs and benefits of corporate and social welfare. It begins with a consideration of business environments – looking at how states help to fulfil corporate needs through regulation and taxation. It then focuses on state provision more generally and the relative distribution of benefits between corporations and citizens. It finds that the high social welfare spenders also tend to be relatively generous corporate welfare providers. The highest spenders on social welfare as a percentage of GDP tend to be the highest spenders on corporate welfare and vice versa. However, if we examine the relative distribution of welfare within states between citizens and corporations (i.e. the proportion of overall expenditure that can be assigned to corporations and citizens), the US emerges as a relatively 'generous' corporate welfare state, with Germany at the other extreme with a relatively high distribution in favour of citizens. The high spenders – Sweden and Denmark – emerge as social–corporate welfare systems with a relatively even balance between the two.

Chapter 5 focuses on corporate subsidies as the 'purest' form of corporate welfare. It begins with an analysis of general subsidies, looking at how the largest subsidies within a number of countries are targeted. In particular, it focuses on the sectors and types of firms that are most favoured by subsidies. The second part of the chapter examines these issues in more detail by scrutinising the full subsidy-disclosure documents filed by the US in 2006 to the WTO. Utilising this data, the chapter focuses on the range of benefits extracted by key sectors in the economy that vary according to the nature of production and trade. The third section of the chapter shifts the focus onto individual firms, looking at the range of benefits extracted from states by some of the largest corporations in the world.

Chapter 6 discusses the impact of the post-2008 economic crisis on social and corporate welfare within various states. This crisis saw the biggest hike in corporate welfare provision in history, although its impact was felt differently in different states. The chapter begins with a brief historical look at the major economic and political crises of the twentieth century and how they influenced the provision of social and corporate welfare, as a backdrop to understanding the post-2008 crisis. The economic crisis, it argues, has weakened the global regulation of state support and has both exposed existing forms of support and massively expanded the range and cost of corporate welfare programmes. The chapter examines how different states have been struck by, and have sought to weather, the crisis. It contrasts the different economic and political approaches of various states to markets prior to the crisis and explores the relative impact of the crisis on these economies. It illustrates that those economies that have been more dependent on financial capital and more 'liberal' in terms of their economies have not only been hardest hit but have had to intervene most heavily to defend their economies. This is likely to drive a further wedge between more generous and less generous welfare systems in future, with the consequence that this is likely not only to impact negatively on individual and corporate need satisfaction but also to mean a greater struggle over state resources in future between different interests, not simply between businesses and citizens but also between one company and another, one sector and another, one set of workers and another, and one group of citizens and another.

All of this points to one relatively simple conclusion: corporate welfare and social welfare are both essential for stable, relatively harmonious, competitive and relatively flexible forms of capitalist system. Arguments that suggest that capitalism thrives best with minimal government are flawed and don't stand up to scrutiny. Indeed, those states that have most vigorously pursued this latter model are those same economies that were most heavily implicated in causing the post-2008 crisis, and the economies that have taken the biggest economic hits as a result of the crisis. Systems that have either prioritised social welfare over corporate welfare or have struck a balance between the two have emerged as the strongest and most stable economies. Those that have tended to emphasise corporate welfare appear to be those economies that are struggling most and experiencing the deepest crisis. This would suggest that a logical move for all states would be towards more active state intervention that closely balances the (longer-term) needs of citizens and corporations. The alternative is that the varieties of welfare system will be further pulled apart – between, on the one hand, more comprehensive welfare states that balance different needs and, on the other hand, minimalist welfare states that increasingly set different interests in competition with each other over state and private resources.

2

The Political Economy of Social–Corporate Welfare States

Welfare states do not evolve and develop in the same way and they do not take the same shape. This is true when we consider social welfare, but it is even truer when we consider corporate welfare. The relative balance between corporate and social welfare provision and the extent to which they operate in harmony or conflict with each other depends on a number of local and international economic and political factors. The needs of businesses and the needs of citizens are important here, where states play a key role in need satisfaction (or not). This chapter aims to make sense of the development and function of different aspects of welfare. It does so by reviewing some of the key theories of welfare-state development, relating them to corporate, as well as social, welfare. It then examines in more detail how welfare provision responds to, and helps to fulfil, the various needs of individuals and corporations. It begins with a review and discussion of the concept of need and how, before outlining, in detail, the various need 'satisfiers' and the role of the state in this.

The politics and economics of welfare

The Introduction highlighted the centrality of corporate and social welfare provision in the recent history of capitalism. Welfare systems have evolved in distinct ways within nation states to establish different levels of reliance on social and corporate welfare. These differences reflect the diverse histories, competing powers and distinct institutional arrangements within states. The relative importance and priority accorded to the main forms of welfare are determined by, among other things, ongoing struggles between competing interests, as mediated by state institutions and determined by the prevailing economic conditions. Esping-Anderson (1990) concluded in his classic study of his worlds of welfare that class struggle, class coalitions, and economic and state structures are the most important determinants governing the shape of welfare states (although he focused only on certain social welfare programmes). Glasberg and Skidmore (1997, p. 3) similarly argue that:

> The contemporary welfare state is best understood as a structure and a historically specific process in which proponents of social and corporate welfare engage in a dialectic struggle for emphasis in state economic intervention policies.

Corporate and social welfare often develop in tandem, but the exact balance between the two within welfare systems varies. A key question, therefore, is what influences this development? While welfare theories provide a sophisticated set of explanations for welfare development, almost no one has so far applied these to corporate as well as social welfare.

The following sections discuss, in turn, the contribution of key economic and political theories to an understanding of welfare, assessing their potential contribution to a greater understanding of the social–corporate welfare state.

Economic structuralism

Economic structuralist theories emphasise the importance of systemic needs within capitalist economies as key drivers that shape welfare outcomes. Thus, as already noted, the important driver of corporate and social welfare according to this perspective is not political lobbying or the power of business elites, as some would argue – from both sides of the political spectrum (contrast, for instance, Miliband, 1973 with Lindblom 1977) – but the endemic failings of capitalism itself (O'Connor, 1973). There are two dimensions to this argument. First, economic structures constrain the scope and direction of new policies. Second, inevitable economic problems occur within capitalism that require state solutions. Both are discussed here.

The connection between economics and policy outcomes was most carefully and clearly laid out by Marx, but others have made similar connections, starting with one of the most influential figures of classical economics, Adam Smith (2003). He tied growing economic prosperity in the eighteenth century to the development of effective state apparatus, especially the setting up of sociolegal structures that would aid the development of the market, and effective state intervention. Max Weber noted the important symbiotic relationship between socialisation – individuals are taught how to exist within capitalist economies – and the successful operation of markets (Swedburg, 1999). For Polanyi (1957), the state is central to the coexistence of economic and social development since, without good governance, markets would undermine social relationships and increase physical risks. He also pointed out that state support for the unemployed was necessary for the reproduction of capitalism since, without it, labour would be unable to contribute to capital accumulation. But it is in the work of Marx and his followers that we can locate the clearest exposition of the state's role in satisfying the needs of business.

For Marxists, capitalist states are compelled by their existence within capitalist economies to ensure that public policies address (or at least do not harm) private economic activities or, more specifically, private businesses. In the Communist Manifesto, Marx and Engels famously argued that the state manages the general affairs of the capitalist class or, to put it another way, the state operates to satisfy capital's systemic needs (Wetherly, 2005). State activities are accordingly limited to those that promote, or at least do not undermine, the economy; thus it is not the pressure brought to bear on policy makers by various actors that has the most impact on government but the fact that the state's own interests are tied by a thousand threads to the fortunes of capitalists (see Wetherly, 2005, p. 122). The capitalist state is, therefore, far from neutral; rather it acts as a factor of cohesion within capitalist states, as Poulantzas (1973, pp. 291–305) put it, to satisfy the 'needs' of capital and stabilise otherwise unstable economic systems (Wetherly, 2005, p. 122). This argument does appear to be rather tautological at one level: the capitalist state is argued to preserve and protect capitalism because it is a capitalist state, but there are solid reasons why the capitalist state operates in this way. Elite pluralists, led by Dahl and Lindblom (1976; Lindblom, 1977) and neo-Marxists, including Fred Block (1977, pp. 6–28) and

Offe and Ronge (1984, pp. 119–29), emphasise the importance of future production, consumption and investment by the business sector to ensure the strength and authority of governments as well as the continued sustainability of state revenues. Whether for sustainable economic growth, long-term financial stability, employment and political stability, or in order to acquire the resources to establish civil order or national defence, capitalist states also depend on capitalists (see Farnsworth and Gough, 2000). Some corporations are so large and so integral to capitalism that they simply cannot be allowed to fail. Indeed, it is this fact that has justified the huge state investment required to save large banks in many economies during the post-2008 financial crisis, which is the focus of Chapter 6.

And just as states depend on corporations for their own revenues, employees depend on corporations for their incomes. As a result, workers and trade unions will often lobby governments for financial benefits and programmes that favour the corporations for whom they work just as hard as the businesses themselves. Indeed, some of the largest subsidies and state interventions are justified on the basis that failures of large firms could well devastate local economies.

Viewed in this way, the shape of welfare programmes can be understood as being influenced primarily by the various needs that emanate from the capitalist economy, including the needs of the state itself. For its part, the state must maintain or create conditions in which profitable capital accumulation is possible (Gough, 1979: 15).

In maintaining profitable capitalism, according to O'Connor (1973) and other neo-Marxists, the state must embark on two potentially competing and contradictory forms of expenditure: social capital and social expenses. Social capital expenditure increases labour productivity and lowers reproduction costs – in other words, it fulfils accumulation functions. Social expenses are utilised to maintain harmony – they fulfil legitimation functions. Both functions are essential for the survival and development of capitalism, but they also operate in different and often contradictory ways. These two forms of welfare align broadly with the categories of corporate and social welfare, respectively, although it should be noted here that the relationship between these two is perceived more positively here as forming a continuum rather than in contrast to the rather binary relationship mapped out by O'Connor and others.

Norman Ginsburg (1979) summarises clearly the dual role that state welfare must fulfil:

> state welfare has contributed to the continual struggle to accumulate capital by materially assisting in bringing labour and capital together profitably and containing the inevitable resistance and revolutionary potential of the working class . . . [T]he social security system is concerned with reproducing a reserve army of labour, the patriarchal family and the disciplining of the labour force. Only secondarily and contingently does it function as a means of mitigating poverty or providing 'income maintenance'.

The problem, according to O'Connor, is that these dual functions of accumulation and legitimation are contradictory and oppositional (O'Connor, 1973, especially pp. 5–10). An ongoing problem for the state is that each of the demands made on it is difficult to meet when faced with limited resources from taxation and increasing social problems that require higher state expenditure. O'Connor also argues that taxation, while providing one solution to growing inequalities and a lack of state revenue, is also part of the problem, since it 'crowds out' private investment by diverting resources away from businesses and reduces the free consumption decisions of workers. A fiscal crisis results from this as the demands for greater expenditure coincide with an inability of the state to fund such provision. Offe (1984) offers a variation on this analysis by arguing that the inability of the state to fund welfare is accompanied by the inevitable failure of the state to deliver adequate services and to deliver services evenly. Inevitably, some parts of the welfare state (e.g. the police) will be prioritised over other parts (e.g. social protection).

This body of work – characterised, or caricatured by Rudolf Klein (1993), as O'Goffe's tales – captures the grave crises that struck at the heart of a number of welfare states in the 1970s. None of the major welfare states collapsed completely, however. Indeed, some of them proved to be rather resilient. One of the strategies employed by states to resolve the crisis of the 1970s was to remodel and rebalance social and corporate welfare – simultaneously cutting less productive forms of welfare while increasing more productive forms. The particular ways in which states did this varied; the more coordinated market economies governments sought to engage employers and employees in negotiated compromises that helped to balance the competing needs and demands of both interests. Corporate and social welfare programmes were expanded to facilitate this, offsetting many of the costs and risks that would otherwise have been borne by businesses and citizens and easing the process of renewal and reinvestment in struggling industries. In the liberal market economies, governments manipulated state programmes to do the opposite – support was diverted from the old monopoly industries to the new, and governments sought to steer support to the leaner, fitter competitive sector.

As the 1970s gave way to a new age of deeper global integration, states sought to utilise corporate and social welfare measures to attract new forms of investment. Despite their dependence on business investments, states have little direct control over private investment decisions; they can only induce investment (Lindblom, 1977; Przeworski and Wallerstein, 1988, pp. 11–29), and they often do so through the utilisation of state support measures. Corporate and social welfare help in this respect by satisfying core business needs and reducing the costs and risks associated with investment in any one nation. States may thus pursue similar goals through corporate or social welfare or a combination of both. Corporations may be assisted in various ways; for instance, through state measures to boost domestic demand, through training measures to increase productivity, or through measures to offset costs or increase profits including grants, subsidised loans or tax breaks. The extent to which companies benefit from these measures will depend, of course, on the firm in question; in particular, whether it seeks higher domestic sales (arms manufacturers do not), whether it seeks a higher-skilled labour force (sweatshop factories do not) and whether it is likely to be offered more lucrative environments elsewhere.

The implication of the structural economic thesis for welfare systems is that corporate and social welfare must operate in harmony to promote, or at least not undermine, private corporations and the pursuit of higher profits. But while the goals of welfare provision may be determined by overriding and inescapable economic realities, the exact shape of welfare provision within states – the method for achieving these economic objectives – is not. However, this does not necessarily imply an inevitable trade-off between corporate and social welfare as neo-Marxist analysis suggests. State expenditure on one form of welfare may help to reduce costs in another, and corporate and social welfare can, in many instances, help to simultaneously fulfil the needs of business and the needs of welfare (Gough, 2000). Whether this leads to a fiscal crisis depends on how states balance corporate and social welfare and, more importantly, who or what bears the costs of provision. We will return to this issue later.

Transformations in the economy are also important here. Globalisation, for instance, has tended to increase the relative importance of structural factors or, to put it another way, has increased the structural power of corporations (Farnsworth, 2004a). Since states are dependent on corporate investment for their own revenues, and citizens are dependent on corporate investment for jobs, globalisation has increased the bargaining position of companies (mobile corporations in particular). Thus, under present forms of globalisation – where the global economy is ever more integrated but where the global polity continues to be fragmented and weak – we would expect (certain) corporations to push for, and be able to extract, higher benefits and investment incentives. But this discussion takes us into the political realm, which is the subject of the following section.

Power and politics

While economic structures do help to explain the shape of welfare systems, it is important to remember that economic structures do not exist in isolation; they are created, managed and reinforced within the political sphere. While economic structures may present a particular issue, challenge or problem that constrains or requires resolution, whether and how politicians act and react is ultimately a matter of some choice. To put it more simply, politics matters. Two key ideas from the politics of welfare literature are especially relevant here: the first emphasises the importance of political interests in shaping welfare outcomes, the second the role of ideas. The class struggle thesis posits that welfare outcomes are determined by class interests, class conflict and compromise (Korpi, 1983, 1989, pp. 309–28; Shalev, 1983, pp. 27–50). The extent of welfare provision and its overall shape is argued to be determined by the relative power of business and labour interests. The assumption is often that business interests oppose social welfare but defend and promote corporate welfare. Labour interests, meanwhile, are argued to promote social welfare and adopt an instrumental approach towards corporate welfare, supporting it where there are benefits to be had for workers and opposing it where it does little more than promote the profits of elite corporations. And, as already noted, structural factors ensure that trade unions often prioritise state subsidies to failing businesses above many other issues, in the hope that such assistance will protect future jobs.

Business organisations are able to use their access to financial resources to fund business interest groups, boost the electoral standing of sympathetic political parties, gain access to politicians or help prevent the election of unsympathetic political parties. And the largest and most strategically important firms are likely to be granted the best access to politicians and be in the best position to shape corporate welfare programmes. Certain trade associations – for instance, agriculture and the steel industry – have been especially adept at pushing for, and securing, favourable state subsidies and other forms of protection (Zahariadis, 2008, p. 134).

If this analysis is correct, bifurcated class relations would be expected to lead to bifurcated welfare outcomes, compounded by ongoing conflict regarding the direction and distribution of welfare settlements. As a result, we would expect that states with a history of relatively acrimonious class relations are more likely to face a trade-off between social and corporate welfare. On the other hand, states that have a history of more benign and collectively negotiated class relations and that have been able to build on coalitions of class interest have moved beyond this simple trade-off. Thus, the emergence of a stable alliance between farmers and workers during the post-Second World War period in Sweden spurred the development of a relatively generous social and corporate welfare state (Esping-Anderson, 1990). Also important, especially in those countries where welfare programmes expanded most, was the development of working- and middle-class coalitions. Since the major demands of the working class – full employment and income equality – have been peripheral concerns for the middle classes, the extent of social welfare development has been largely dependent on the extent to which the middle classes could be encouraged to support and defend them according to Esping-Anderson (1990, pp. 29–32).

Some states are better geared towards consensus building between business and labour interests. Corporatist or coordinated market economies, unlike liberal market economies (see below), seek to foster compromise between competing class interests and seek to engage business and labour interests in longer-term economic planning and discussion over the present and future directions of firms. Such arrangements make it easier to foster agreement on welfare provision and provide incentives to business and labour groups to compromise and reach deals on certain forms of provision. The result is that both corporate and social welfare are likely to expand more rapidly in coordinated market economies than in liberal economies, which tend to have more competitive political systems and where the scope for reaching compromise deals between employers and employees is far harder (thus, corporate and social welfare both tend to be higher in social democratic states as Chapter 4 illustrates). One possible explanation for this is that Left-leaning political traditions also tend to pave the way for more corporatist arrangements, which place the representatives of business and labour groups at the heart of government (Jessop, 1990), where both interests will either settle for policy solutions that bring joint benefits or give ground on one set of policies if this brings the promise of benefits elsewhere. It follows, then, that trade unions from more labour-intensive industries are also more likely to support, or even struggle to secure, subsidies, especially where the alternative is business closures (Zahariadis, 2008, p. 100). Thus, powerful trade-union movements tend to associated with, not only higher levels of social welfare, but also higher levels of corporate subsidy (Garrett, 1998). There is also evidence to suggest that acrimonious political environments – typical of liberal economies – tend to steer corporate welfare to the most powerful corporations with the best political connections and those that have made the most generous contributions to political parties (Duchin and Sosyura, 2010). A *Newsweek* study carried out in the US into the political donations made by state-rescued companies during the post-2008 economic crisis, for instance, found that the largest donations went to politicians sitting on committees that oversaw the granting of state aid (Faccio, Masulis and McConnell, 2006, pp. 2597–635; *Newsweek*, 2009). Social welfare in such states, meanwhile, tends to be minimalist, selective and determined by corporate-needs (Farnsworth, 2004).

Ideologies of welfare

This chapter now turns to ideology. Ideologies shape how problems are understood and the most appropriate response to them. Ideological frameworks also help individuals to formulate their own ideas within existing frameworks and make sense of the ideas of others.

The following section examines three distinct ideological approaches to welfare that have been especially important to the development of social and corporate welfare within Western capitalism: neoliberalism, social democracy and socialism.

Neoliberalism has its roots in classical liberalism and classical economics. From liberalism it borrows a deeply rooted political and philosophical tradition, drawing on the ideas of Jeremy Bentham and John Stuart Mill, which prioritise the notion of individual autonomy and freedom alongside a utilitarian approach to human beings that suggests that individuals are the best placed to judge of what is in their own best interest. From classical economics, it draws on the ideas of Adam Smith and David Ricardo, who suggested that markets follow a certain scientific rationality and will, if allowed to operate relatively free of state interference, best mediate the competing interests of producers, workers and consumers. Self-interest drives the market and this, in turn, ensures economic growth, technological innovation and the widest possible distribution of resources according to objective market principles (as opposed to the wishes and demands of those in power).

The most influential modern proponent of neoliberalism is Friedrich Hayek. Although he referred to himself as a liberal, Hayek, more than any other, has helped to define the version of neoliberalism that has come to dominate the political landscape of late twentieth century capitalism. In common with classical liberalism, he argued that individuals are rational utilitarians at heart who, provided they are given the right medium through which to express and achieve their wants and needs, they are best placed to define and satisfy their own needs and interests (Hayek, 1944). The only medium through which individuals could achieve this goal in the absence of tyranny was, for Hayek, the free market. Therefore, the proper and only acceptable role for the state is to facilitate market development through the establishment of the the rule of law, and defend property rights and national borders from foreign attack.

Beyond this, for neoliberals, state provision is problematic, whether it is aimed at individuals or corporations. The problems with welfare for neoliberals are threefold: first, state provision distorts or corrodes markets, perverting or displacing market discipline, choice and entrepreneurialism; secondly, it places too much power in the hands of bureaucrats and politicians; thirdly, it rewards bad behaviour and allows individuals to shift the responsibility and costs of their own behaviour onto others. Thus, governments, drawing on their own preferences, prejudices and ideas, force individuals to consume certain goods and services. Notions of fairness, equity and even poverty were condemned by Hayek as social and/or political constructions that would, if utilised as the guiding objectives of states, prove to be ineffective or, worse, highly dangerous pursuits. Attempts by the state to change market distributions or provide for individuals in the hope of achieving what governments consider to be greater levels of fairness would lead, according to Hayek, inexorably towards an ever larger and more intrusive state.

Hayek also feared that growing intervention by governments in the economic sphere would prove to be ineffective, which, in turn, would lead to ever greater public demands for market-correcting state programmes and ever more ambitious state projects to tackle economic and social problems. Because, for him, state programmes undermine competition and markets, such problems would only grow with the size of the state, leading to more and more ambitious interventions. Through this process, initial small-scale state interventions would snowball so that, ultimately, most decisions would be taken, not by free citizens, but by governments. As Hayek puts it:

> The more dependent the position of individuals . . . is seen to become on the actions of government, the more they will insist that the governments aim at some recognisable scheme of distributive justice; and the more governments try to realise some preconceived pattern of desirable distribution, the more they must subject the position of the different individuals . . . to their control. So long as the belief in 'social justice' governs political action, this process must progressively approach nearer and nearer to a totalitarian system.
>
> (Hayek, cited in Barr, 1998, p. 47)

The underlying assumption here is that markets are emancipating. They offer, according to Hayek, 'the only procedure yet discovered in which information widely dispersed among millions of men can be effectively utilised for the benefit of all' (1944, p. 27).

As already noted, neoliberals argue that social welfare protects individuals from their own bad choices, making them irresponsible and ever more dependent on the state. By extension, corporate welfare operates to reward poor investment or production decisions and will ultimately lead to ever greater demands from business for higher levels of support.

Within free market capitalism, the promise of wealth promotes competition between individuals and, by extension, firms. Wherever firms cannot compete with other firms, they will go out of business. The promise of financial rewards and the threat of closure that ensures that efficient and competitive firms deliver goods and services that consumers want at a price they can afford. Where governments provide financial or other forms of assistance, however, the market is distorted to the detriment of all. This is damaging not only to local consumers but also to non-subsidised companies producing within the same national borders. It is equally damaging to foreign producers, especially within developing economies that are, as a consequence of these subsidies, unable to compete with the resulting cheaper products that flood international markets.

For these reasons, the most vociferous anti-corporate welfare campaigns tend to emanate, not from the Left, but from the organised political Right. Moore and Stansel (1996), writing for the right-wing Cato Institute in the US, echoed Hayek when they wrote that:

> Corporate welfare is objectionable because it corrupts both our free-market system and our representative form of government. Corporate welfare converts the industrialist into a statist businessman whose market is the political arena in Washington, D.C., not consumers.

Similarly, Donlan (cited in Egan, 2004, p. 11) argued that:

> Regardless of who gets it, welfare demoralizes recipients and saps the strength of the productive economy.

As a result, according to Moore and Stanself, corporate welfare brings few long-term returns to taxpayers (Moore and Stansel, 1996). Thus, for neoliberals, whether state welfare is aimed at individuals or corporations, it corrupts markets and erodes freedom. The answer lies in genuinely free markets.

Critics on the Left, in contrast, argue that free markets lead to growing social and economic problems. According to Galbraith (1995, p. 4), Polanyi (1957) and O'Connor (1973), for instance, free markets are subject to inevitable and catastrophic failure, which leads to hardship for individuals and even threatens to destabilise the market system itself. Without state intervention in various areas, capitalism would operate inefficiently and inequitably, and would likely eventually implode.

The key difference between liberals and social democrats, therefore, is in their approach to the state. For social democrats, such as Tawney, there is no inevitability to the failure of the state, nor any reason to fear the state, which is, in any case, made and remade within democratic structures (Tawney, 1964). The state is considered to be essential for the long-term stability of capitalism. There is, however, a more deeply rooted belief that markets do, and will inevitably, fail. Social democrats draw on the work of Keynes to argue that markets do not naturally clear – supply and demand do not tend towards a natural state of equilibrium – and thus do not naturally lead towards full employment. Only states, through the deliberate manipulation and management of demand, are capable of creating the correct conditions that maximise the welfare of their citizens and the fortunes of their domestic businesses.

Such intervention, social democrats argue, made possible the development of comprehensive social welfare. Governments might legitimately borrow to invest and induce consumption during economic downturns provided that they raise revenues during upturns to prevent their economies overheating. Public policy programmes, encompassing social and corporate welfare, are an important part of the macroeconomic strategies that governments should employ in order to increase the efficiency and fairness of markets. Social welfare is, for example, countercyclical – boosting demand during economic slowdowns, and reducing expenditure (by taking in revenues) and dampening inflation during times of economic growth.

For social democrats, corporate welfare may constitute legitimate state expenditure, provided that it helps to meet wider social and/or economic goals and promotes the long-term efficiency of markets. However, it is not without its controversy. Corporate welfare can also disadvantage the poor within countries, by diverting resources towards elite interests, and in developing economies by artificially boosting the market positions of producers within wealthy economies. It also tends to distribute resources to the wrong corporations, favouring the most powerful rather than the most needy (Dawkins, 2002: 271). On the other hand, corporate welfare represents an important tool of macroeconomic management. States have the means, for example, to protect against factory closures and unemployment through the application of mechanisms that may improve employment conditions, such as boosting training or wage levels. Despite these concerns, ultimately, for social democrats, social and corporate welfare remain legitimate tools for managing economic and social needs.

Socialists take a different approach to the state from either neoliberals or social democrats. For socialists, markets will tend towards the excessive exploitation of workers, and to guard against this, it is important that strong regulations and compensating measures are put in place. Socialists also favour publicly or employee-owned enterprises rather than individual capitalist or shareholder models, both of which tend to run corporations in the interest of maximising short-term profits. Even if such models lead to higher profits in the short run, they will ultimately lead to higher levels of inequality, social unrest, heterogeneity, alienation and long-run inefficiencies. For socialists, societies should promote fairness and equity, but this is only made possible through constant struggle. Ordinarily, capitalism promotes the interests of business above all others, and governments, of whatever hue, are structurally tied into serving those interests. Only sustained organised labour struggle ensures that governments will promote the interests of workers alongside those of business.

For these reasons, state provision for corporations should, according to socialists, translate into greater levels of state control and ownership. State provision should not be utilised simply to socialise corporate risks while those same firms are able to privately appropriate profits. Opposition to such support increases where the wider social benefits of corporate welfare are more difficult to comprehend and wherever corporate welfare appears to directly compete with social welfare for resources.

Those on the more radical Left are also ambivalent about social welfare, especially if it is delivered within otherwise free market models of capitalism, because such provision serves only to legitimate unjust systems of economic management. On the other hand, social welfare is important to protect workers from exploitation and other forms of social risk. For some, social welfare rebalances the power relationship between capitalist and worker by offering employees the option of withdrawing their labour. For others, social welfare offers the opportunity to gradually extend the role of the state and reduce the dominance of private markets. In other words, social welfare is an important mechanism to ease the journey from capitalism to socialism. However for those employing a neo-Marxist approach, social needs will always take a back seat to economic needs in capitalist systems and social welfare is no exception to this. As a result, social welfare can be oppressive, serving to undermine and disempower the poor by delivering services that legitimate a fundamentally unjust system while simultaneously putting in place state benefits that often seek to impose social control and regulate behaviours (Jones and Novak, 1999; Squires, 1990).

These, then, are the three key ideological approaches to welfare provision. Generally speaking, social democrats, occupying the political centre, are more supportive of both corporate and social welfare than neoliberals (on the Right) or socialists (on the Left). There is an important reason for this. Social democrats seek out ways of efficiently and effectively managing capitalism through a range of market and non-market solutions, and social and corporate welfare together can act as mechanisms to combat market failure and economic instability. For the Right, market failure will generally clear and correct itself, and state intervention, including social and corporate welfare, is the least preferred solution. In government, however, the Right tends to rely more heavily on the support of privileged elites and corporate funding, however, hence such governments experience pressure for concessions from this constituency. For the Left, the dominant power of corporations over individuals is one of the major barriers to human emancipation and fulfilment, hence governments on the Left are loath to use state resources to benefit private corporations when these could be channelled towards individuals. Like all governments, however, the Left has to deal with the reality that boosting incomes and employment often means having to boost the positions of big business. Perhaps because they often attempt to draw on wider constituencies, and perhaps because they tend to have fewer ideological barriers to either corporate or social welfare, social democratic governments are well placed to explore ways of enhancing need satisfaction but, more importantly, to create the conditions to force employers and employees to compromise on questions relating to state provision. Such compromises often operate to boost public expenditure in negotiations over pay, benefits, services and regulations where, in each of these areas, the state may either bear a larger share of the costs or be able to compensate for any losses. Thus, Left of centre dominance in government and/or a fragmented Right tends to boost social welfare and corporate welfare (including business subsidies) (Castles, Widmaier and Wildenmann, 1989, pp. 361–65; Garrett, 1998). We will return to this discussion later.

The needs of people and the needs of business

The issue of needs goes to the heart of the welfare state. Indeed, the biggest conflicts between competing interests are often shaped by perceptions of need. Put simply, conditions that operate to balance and adequately satisfy corporate and citizen's needs will create the optimal conditions that enable individuals and corporations to thrive and will help to reconcile otherwise competing needs (Gough, 2000). Yet, some states may fail to fully satisfy the needs of either interest. The following discussion helps to make sense of the apparent contradictions and complexities involved here.

The notion of 'needs' suggests that there is some connection between the satisfaction of a given need or set of needs and the sustainability of an organism or, as the concept is applied here, an individual citizen, firm or even the whole capitalist system. As Gough (2000) puts it, if needs are not satisfied, 'serious harm of some objective kind will result'. At the most basic level, the physiological needs of human beings as biological entities need to be satisfied if the individuals are to survive. Food, water and shelter are the most fundamental needs. However, in order not simply to survive but to thrive within their social and economic environments, human beings require the economic, political and social means of survival. Above all, they need to be able to engage actively and without barriers within the social sphere. This question of what human beings need to thrive within their environments has occupied philosophers and social scientists for centuries. More recent contributions by Nussbaum and Sen (1993), Doyal and Gough (1991) and Phillips

(2006) elucidate the intricacy and complexity of the notion of need satisfaction, not to mention the controversy that surrounds such debates. It is not necessary to rehearse these arguments here since this is not a book about needs per se, but it is useful to summarise Gough's approach because it is one of the clearest, most detailed and illuminating discussions of the subject.

For Gough (2000), human needs are universal and objectifiable. They can be researched, known and charted, and they can, and indeed should, form the basis of correctional social policy. The basic needs of people, according to him, extend to physical health, autonomy of agency and critical autonomy. Autonomy of agency – real individual choice, freedom of thought and expression, the rights of social engagement and participation – requires that barriers to such autonomy, including ill health, poor education, poverty and discrimination, be reduced or removed. Because certain known conditions are more conducive to achieving the optimal fulfilment of human needs, this places a moral duty on individuals, including policy makers, to address deficits in the satisfaction of needs. The most effective mechanism to satisfy human needs within contemporary societies is the welfare state.

This view of human needs and their satisfaction is not uncontroversial (for an overview, see Gough, 2000), but there is no denying that all biological entities have needs of some sort, even if they can be reduced to the most basic needs. It is more controversial to argue in a similar vein that businesses have needs. At the risk of reifying economic entities, however, it is possible to think of corporate entities and capitalism itself as having institutional or systemic needs. If these needs are not satisfied, individual corporations or the whole economic system will suffer serious harm. In order to produce, trade and profit, businesses need a stable fiduciary system and a well-established rule of law. Businesses also need to possess basic legal rights: the right to appropriate and dispose of property, the right to buy and sell commodities, the right to hire and fire workers and the right to make profits. They also require access to an adequate supply of acquiescent and disciplined workers who are appropriately skilled, fit and healthy for work, with a good balance between new entrants to the workplace and older, retirees. Individually, companies need to be able to extract ever greater profits, through either greater production or lower costs. But companies also need to produce and trade within an environment of effective regulations that boost stability and reduce the costs and risks that might be imposed on them by other firms. Lastly, firms cannot raise capital and private investment, enjoy rising share prices or sell to consumers if they do not command a high level of trust and confidence. The extent to which firms are either enabled or hampered in this respect is determined by what happens within the wider economy.

Beyond basic needs, businesses also have advanced needs that have evolved as capitalism has evolved. Modern capitalism has encountered various pressure points and transformations, and new needs have emerged. Governments have facilitated the continuing growth and strength of capitalism by responding to the difficulties of meeting new needs as they have arisen. As O'Connor (1973, p. 24) puts it:

> [Over the past century] Capitalist production has become more interdependent – more dependent on science and technology, labor functions more specialized and the division of labor more extensive. Consequently, the monopoly sector (and to a much lesser degree the competitive sector) require increasing numbers of technical and administrative workers. It also requires increasing amounts of infrastructure (physical overhead capital) – transportation, communication, R&D, education and other facilities. In short, the monopoly sector requires more and more social investment in relation to private capital.... The costs of social investment... are not borne by monopoly capital but rather are socialized and fall on the state.

Modern businesses require stable and liquid national banking systems, and, just as importantly, adequate access to new capital and new lines of credit. They also require highly skilled, (state) trained, flexible and productive workers and sufficient demand for their products and services. Wherever these essential elements are absent or not available in sufficient volume, government life-support may be offered in order to prevent business failures, depending on the strategic importance of the company in question. Such support can take various forms. In such circumstances, some businesses require direct cash grants (farming is a clear example but, as subsequent chapters illustrate, such dependence is widespread). Some companies will rely heavily on in-kind support (e.g. the defence industry, which relies heavily on government-brokered deals). Others depend on a constant flow of state-subsidised consumption (e.g. the railways and tax-deductible private welfare consumption.). And still others depend on direct state purchases of goods or services (e.g. the pharmaceutical industry, the defence industry, private consultants and public procurement contractors).

Table 2.1 maps the various categories of needs as they apply to people and corporations. It is an expanded version of the models developed by Doyal and Gough (1991); Gough (2000, p. 13) and

Table 2.1 The needs of capital and the needs of people

Needs of capital	Human needs
Ultimate system need	**Universal goal**
• Maintenance of capitalist relations of production	• Avoidance of serious harm: minimally disabled social participation
Basic needs	**Basic needs**
• Profit (production and appropriation of surplus value)	• Physical health • Autonomy of agency • Critical autonomy
Universal satisfiers	**Universal satisfiers**
• Bourgeois legal order and money (private property, exchange) • Compliance (legitimation/consent, coercion) • Regulation of the capital–labour relation (entry into the labour market and the securing of the conditions for exploitation) • Access to adequately skilled labour • Access to healthy and productive labour • Productive capacity • Productive performance • General material conditions (infrastructure) • Effective regulation and financial stability • Social capital, trust and confidence	• Adequate nutritional food and water • Adequate protective housing • A non-hazardous physical environment • Appropriate health care • Security in childhood • Significant primary relationships • Physical security • Economic security • Safe birth control and child-bearing • Basic education • Cross-cultural education

Advanced system satisfiers

- Stable and liquid national banking system
- Stable and tradable national currencies
- Effective regulation of monopolies
- Access to capital and maintenance of banking system
- Regulation of risk (in the areas of financial markets, labour markets, foreign markets and the environment, including protection from externalities generated by other capital)
- Financial stability
- Protection against general and unique risks (including threats abroad)
- Protection of key industries (e.g. banking and agriculture)

Specific satisfiers

- Adequate profits/sales
- Subsidies
- Tax breaks/tax holidays
- Low-cost loans
- Equity purchases
- Advice services
- Insurance and protection services
- State-sponsored sales
- Shared human capital investment costs
- Public R&D investment
- Adequate compensation measures for market failure
- Protection against high and/or unknown risks
- Compensation for market failure and financial harm
- System of law/order/defence/fire protection services
- Sanitation
- Communications and transport network
- Environmental protection measures

- Adequate level of income
- State housing
- Social care services
- Social security
- Education
- Health care
- Training provision
- System of law/order/defence/fire services
- Sanitation
- Cultural services
- Emergency health/fire/police services
- Communications and transport network
- Environmental protection measures

Wetherly (1995, p. 297). The basic needs of people consist of physical health, autonomy of agency (physical freedom to act) and critical autonomy (the freedom of voice and the freedom to think). For business, the basic need is profit. For both, it is necessary to avoid serious harm that threatens participation in the social sphere – for people – and the economic sphere – for corporations. Beyond this, individuals and private businesses require access to various need satisfiers. In contrast to Wetherly and Gough, we can add the various need satisfiers that exist within advanced capitalism. A failure to satisfy such needs would prevent capitalism from evolving and/or would result in wider system failure. What should also be apparent in the table is that the various needs and need satisfiers often map onto each other. For instance, citizens need good access to education and corporations need access to well trained workers. Individuals need legal protection from each other as well as from corporations. Corporations need similar protection from competitors as well as from citizens who pose risks to them.

This makes clearer the close relationship between individuals, employers and the state to the satisfaction of needs. Individual citizens directly fulfil the needs of businesses (by contributing to profits through their labour power and their consumption of goods and services), but businesses also directly fulfil the needs of workers and their extended families (through money and in-kind wages). It also makes clear how important government is to the satisfaction of human and corporate needs. The following section outlines in more detail the relationship between different forms of need satisfaction methods.

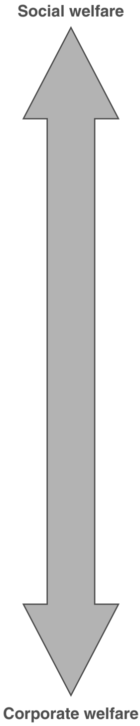
The social–corporate welfare continuum

Since resources are finite and since there are competing interests involved, there is likely to be some trade-off between social benefits and economic benefits. The relative power of competing groups will tend to determine where this policy compromise eventually settles. The trade-off is not necessarily a simple one between social and corporate welfare, however, and may occur between one form of social (or corporate) welfare or another. Moreover, competition over welfare is greater in some states than others and at certain points in the economic or political cycle than others. Compromise between interests is also easier where provision can be made to simultaneously satisfy a number of different needs. Some forms of social benefit are essential to satisfying business needs and some corporate benefits are directed primarily towards addressing social needs. Because power is not distributed evenly, and because it is most often distributed in favour of businesses, the needs of corporations can be as important in shaping social welfare provision as the needs of individuals. This unequal power relation notwithstanding, significant variability in the relative balance between corporate and social welfare remains.

Yet, corporate and social welfare are not entirely different and unrelated, and neither form is mutually exclusive. Both forms of welfare exist on a continuum and specific forms of welfare often meet the needs of both corporations and of individuals. Figure 2.1 summarises the key broad satisfiers of corporate and social needs along a continuum.

Towards the top of Figure 2.1 are the key forms of provision that make up the major social welfare services – the personal social services, housing and some cash benefits. This provision most directly meets the needs of people by helping to support those who cannot work; but it brings variable benefits to corporations. Of all state services, the personal social services offer the least obvious benefits to business in general, although some individual private businesses do gain a huge amount from contracting with the state to deliver, for example, residential homes for the elderly and disabled, and care in the community services. Housing, too, directly contributes to the private construction industry and subsidised housing costs contribute directly to the private rented sector.

Next are benefits that are primarily targeted towards individuals but that bring obvious and, in some cases, essential benefits to business in general. Basic education, unemployment benefits and pensions fit this category. A 'suitable' level and quantity of schooling constitutes a basic human need, according to Gough (2000). Education provides the necessary knowledge and awareness of decision-making processes and how to access them. A lack of education is a barrier to full participation within the social sphere as much as it is in the economic sphere. Basic skills and qualifications are the gateway to even the most mundane employment and more advanced qualifications are essential to accessing better



1. Personal/social services
2. Social housing
3. Unemployment benefits and pensions
4. Health care
5. Primary education
6. Tertiary education
7. General state training programmes
8. Company/sector-specific state training programmes
9. State legal instruments that define and facilitate the basis of ownership, trade, employment and appropriate of profits.
10. Criminal justice policy
11. Infrastructure spending on road/rail network, postal and telecommunications system, and other utilities
12. Wage subsidies
13. Publicly funded research programmes
14. Private sector transfers and purchasing agreements (procurement), including privatisations
15. Government equity purchases where governments assist firms by agreeing to buy significant shares.
16. Government advice and support services
17. Insurance and credit guarantees
18. Private sector transfers
19. Subsidies
20. Tax relief
21. Low-cost loans/loan guarantees
22. Capital and revenue grants to businesses

Figure 2.1 The social–corporate welfare continuum

paid, safer and more rewarding jobs. Schooling ensures that future workers have basic skills, such as literacy and a basic level of numeracy, on which the majority of employers within advanced capitalist states depend. It also provides what Offe (1984, pp. 119–29) refers to as 'cultural motivation' in the form of discipline, career goals and an acceptance of prevailing socioeconomic positions. Without a flexible, acquiescent and conformist workforce, businesses would struggle to appropriate sufficient surplus value from the wage relationship.

Health is one of the key basic human needs, and good quality, free or heavily subsidised health-care systems are essential to ensure that all citizens, regardless of income, can access the health care they need. Individuals who live within societies that have comprehensive public health systems live longer, fall ill less often and recover more quickly from illness. Health care within such systems also tends to be delivered more efficiently, with relatively higher health outcomes at lower overall cost. This has key benefits for employers also. Absenteeism and premature death bring with them high costs for employers that have come to depend heavily on employees, especially where employees possess rare skills. Good-quality, free public health care increases the likelihood that all employees will access the necessary care quickly and recover from illnesses more speedily. And the private pharmaceutical industry extracts a large proportion of its profits from state health services.

Social welfare systems bring benefit to employers in one further way. By pooling resources and distributing essential services to citizens, states remove some of the responsibility for labour reproduction that would, in all likelihood, eventually fall on to employers. This is certainly clear from existing analyses of welfare provision where states with lower levels of public health, pensions and child-care provision tend to have higher levels of employer-provided occupational provision (Farnsworth, 2004b). This places a significant burden on employers that businesses in other states are not subjected to and that lower levels of corporate taxation only marginally offset. Moreover where employers have faced high costs associated with occupational welfare, they have lobbied for increased collective or employee-funded state provision (*The Economist*, 2005). Such costs are a concern for larger employers in the area of health care in particular because, relative to their counterparts in more comprehensive state-welfare systems, employers pay more than their competitors based in countries with national health systems.

State benefits offer citizens an essential means of financial support during economically inactive periods. Many state schemes also offer social insurance against various risks encountered by citizens in the course of their life. Without such schemes, individuals would be denied their basic needs and would, in all likelihood, perish.

Employers also gain indirectly from social protection that is paid to their current, future or previous employees. Unemployment benefits and state pensions contribute to corporate profitability by easing the process of hiring and firing labour. Such provision also assists in the reproduction of labour power (socialising the costs of bringing up children), ensuring a good supply of future workers, and it ensures that the unemployed are fit and able to work once economies recover. Social-security benefits also help to underpin demand during economic slowdowns where consumption would otherwise collapse.

Pensions specifically facilitate the shedding of older workers, which enables employers to more easily moderate the size of their workforce as required and to employ less expensive and (possibly) more productive workers (Pampel, 1985).

Thus, although social security would not generally be included under the rubric of corporate welfare, businesses glean a great many benefits from it. As O'Connor put it:

> The basic purpose of social security is widely misunderstood. Only workers who are economically redundant are eligible for workmen's compensation, old age insurance, and unemployment benefits. In other words, the expansion of social security is the direct effect of technological, cyclical, and other forms of unemployment that accompany capitalist economic developments ... Although social security contributes to social and political stability by conservatizing unemployed and retires workers, the primary purpose of the system is to create a sense of economic security within the ranks of employed workers (especially workers in the monopoly sector) and thereby raise morale and reinforce discipline. This contributes to harmonious management-labor relations which are indispensable to capital accumulation and the growth of production. Thus the fundamental intent and effect of social security is to expand productivity, production, and profits. Seen in this way, social insurance is not primarily insurance for workers, but a kind of insurance for capitalists and corporations.
>
> (O'Connor, 1973, p. 138)

An adequate supply of good-quality and affordable social housing, meanwhile, meets a basic human need for shelter, but it also benefits corporations by increasing labour mobility, especially in prohibitively expensive property markets. Social housing, whether offered for sale or rent, also reduces house-price inflation, which can lead to higher wage demands. Since the private sector is often involved in building social housing, it also brings benefits to the construction industry.

Provision positions on the middle of the welfare continuum is difficult to classify in relations to the key beneficiaries. Infrastructure spending on road, rail and postal systems, for instance, brings widespread and essential benefits to individuals and corporations. Where these are heavily subsidised and/or outsourced the benefits are spread between the operating company, businesses connected by the infrastructure and the end user (which also includes companies) and the service user (which includes businesses). Perhaps businesses, on balance, might be viewed to be marginally more dependent on these services since without them they would find it difficult to expand and they would have to invest more heavily in finding the means to get their workers to remote production facilities and products to consumers. Trade and business needs often provide the biggest steer in shaping state transport investment decisions, and private companies often build or run these services with subsidies from the state, hence the biggest financial benefits tend to extend to the private sector (Hacker, 1982, p. 42). O'Connor argues that the private sector, in the US, is the primary determinant of transport policy:

> one set of forces – the 'auto complex,' or 'highway lobby' – largely determines the general nature of the U.S. transportation system. And although suburban roads, city streets, and many communication facilities are used as social consumption (because the work force requires these facilities), transportation outlays to a large degree are intended to serve private capital. Short-haul and long-haul trucking, delivery and messenger services, rail, air, inland waterway, and a large part of (noncommutation) personal air, car and other travel are indispensable to the production and distribution of goods by every corporation in every industry.
>
> (O'Connor, 1973, p. 105)

Government funding and other forms of state support have also been key to the development of electricity, gas and water supplies within nations, although it is more usual now to have higher levels of private ownership in these areas. But without heavy state involvement it is doubtful that these services would have evolved, and without these services, firms could not produce, sell and distribute goods and services on any scale.

Business also benefits from a range of other public goods ostensibly provided for the benefit of citizens. Businesses and citizens can equally benefit from criminal justice policy although both might bear the costs of its failure. Legal systems can also be employed by either interest.

Moving closer towards the middle of the continuum reveals provision that brings even greater benefits to businesses. Here provision that is often assumed to be primarily directed towards citizens may actually be shaped as much by the perceived needs and demands of businesses as by the needs of individuals. It includes provision for occupational disease and industrial accidents, sickness from work, general training provision and job-search services.

State training allows workers to reskill and become more productive employees to the benefit of themselves and their employers. Without state training services, employers would be forced to invest more heavily in their own workers and would, as a result, face a classic freeloader problem, where other employers would avoid the high costs of similar investment by poaching skilled workers with the promise of (slightly) higher wages. A similar problem applies to investment in R&D. O'Connor summarises the general problem succinctly:

> In the context of a free market for labor power . . . no one corporation or industry or industrial-finance interest group can afford to train its own labor force or channel profits into the requisite amount of R&D. Patents afford some protection, but there is no guarantee that a particular corporation's key employees will not seek positions with other corporations or industries. The cost of losing trained labor power is especially high in companies that employ technical workers whose skills are specific to particular industrial process – skills paid for by the company in question. Thus, on-the-job training (OJT) is little used not because it is technically inefficient . . . but because it does not pay . . . Nor can any one corporation or industrial-finance interest afford to develop its own R&D or train the administrative personnel increasingly needed to plan, coordinate, and control the production and distribution process. In the last analysis, the state is required to

> coordinate R&D because of the high costs and uncertainty of getting utilizable results.
>
> (O'Connor, 1973, p. 112)

The only alternative to this is to force the costs of training onto employees, but the end result would be to reduce the number of available skilled personnel, which would, in turn, ultimately impact negatively on the productivity and profitability of firms. In such environments, employers may seek to relocate, cease to be profitable, or make less use of advanced production techniques (and thus reduce their training needs). Without the state, therefore, training would prove inadequate for either interest. State training programmes may be generalist, designed to improve the marketable skills of workers and meet the general needs of employers or sectors, or may be targeted towards specific firms or sectors (in which case they would fall even closer towards the corporate-welfare end of the continuum.).

Wage subsidies and in-work benefits more generally, are included here because they provide direct benefits for both individuals and corporations.[1] While they may operate to boost the incomes of workers, they also effectively subsidise the wage costs of employers. Since wage subsidies bridge the gap between the wage that employers are willing to pay and the level of wage needed to support individuals and their families, without them, companies would face a choice between higher wage costs or cheaper, lower-skilled workers. The alternative is that they cease to trade entirely. For Whitfield, such provision primarily functions as a subsidy to low-wage employers:

> Income support programmes for employed people . . . are based on the premise that being in paid employment is not sufficient to provide a minimum acceptable standard of living . . . . These policies appear to appear to support the working poor but the are de facto wage and income subsidies to employers.
>
> (Whitfield, 2001)

Although tax reliefs for purchases bring direct benefits to individuals, they also provide crucial benefits for private companies. Tax relief is usually focused on a narrow range of goods and services, restricted to areas where governments want to boost demand. Private health-care plans, schooling, pensions and savings have attracted relief from governments in the past. The private companies that provide these services benefit hugely from such state largesse.

The purest forms of corporate welfare are listed at the bottom of Figure 2.1. These forms of provision primarily benefit corporations. Indeed, some under this heading, including job-creation and work-experience schemes, may distinctly disadvantage individuals by forcing them to take jobs they would otherwise have not taken and may keep them locked in relatively low-paid, low-skilled and precarious employment (especially where subsidies are time limited).

Next are state-funded research and innovation programmes that undoubtedly bring benefits to individuals, but private businesses are also major beneficiaries. Each year, governments invest huge sums to support research and development (R&D) centres within public universities in areas ranging from defence and oil exploration to aeronautics and pharmaceuticals (Simms, 2003). The rationale for such support is that companies would be unable to find private financial backing for long-term, preproduction and speculative high-risk research. Governments similarly fund experimental technologies where the lack of immediate private returns, or the size of the required investment, would deter private financing. A major growth area for such investment is in renewable energies, cleaner production and sustainable development.

An increasing number of firms also depend directly on public sector procurement deals and other state purchases. Often, governments pay above-market rates in order to favour or protect particular firms (often favouring domestic over foreign suppliers, for instance) (Thöne and Dobroschke, 2008). For some firms, their entire income and profit is generated from public sector contracts. Since the 1980s, governments have increasingly contracted with the private sector to deliver services on behalf of the state, including health care and the educational and personal social services. If the net result of this is to reduce overall public sector costs, there is less of a problem here, but previous research has revealed that private sector contracting is often less efficient and more expensive than public services (see Farnsworth, 2006; Whitfield, 2001). The private sector has also benefited from state privatisations. In such cases, public debts are often written off and share prices are set artificially low in order to boost interest in the privatisation, which provides potentially large financial gains to those acquiring the shares. According to Whitfield, tax reductions were also targeted by the British government on the soon to be privatised companies in the 1980s and 1990s in order to artificially boost profitability and share price (Whitfield, 2001). In many instances, governments continue to finance privatised companies in order to ensure their survival and viability within private markets. The privatised bus and rail industries in many nations are a good example of this. The net result of privatisations is often that state monopolies are replaced by private monopolies with a clearer motive to exploit their market positions to exploit consumers.

Companies also benefit greatly from state advice and support services. Governments provide general advice services on issues ranging from credit and debt to foreign sales and investment. They also intervene in sales and investment more directly. Whole departments are set up by governments in order to issue advice to companies on a range of issues, including taxation, legal issues, employment and overseas trade. Dedicated investment promotion agencies provide investment policy advice and consultancy services, assist with investment registration, and promote outward investment and privatisation all in an attempt to capture mobile capital. (UNCTAD, 2001). The benefits on offer vary, but frequently involve the setting up of investment zones that offer specific inducements to inward investors ranging from financial sweeteners to reduced regulations. These are more commonly found within developing countries and the most often cited example is the Maquiladora industries of northern Mexico. However, they also exist within developed economies, as Potter and Moore illustrated in their study of the UK's Enterprise Zones in 2000:

> The specific [Employment Zone] policy instruments in the UK are exemptions of property from local business rates, enhanced capital allowances against corporation and income tax liabilities for investment in property, exemption from Development Land Tax . . . exemption from Industrial Training Board levies, a simplified planning regime . . . faster administration of planning and other decisions, relaxed criteria for applications for customs facilities (which exempt businesses from customs duties on re-exported goods) and a reduction in requirements to respond to government statistical enquiries.
>
> (Potter and Moore, 2000, pp. 1279–312, 1280)

Governments also actively seek to expand markets abroad for their national companies as part of their general overseas diplomacy activities (Hacker, 1982, p. 43). Where deals are hugely significant, in terms of cost or sensitivity, senior politicians, including heads of state, often get involved in order to facilitate them. Where the project is sufficiently sensitive and costly, governments often directly become involved in the details and at the very highest levels. This was illustrated in 2008 in leaked negotiations between Tony Blair and the Saudi government over a contract for a British firm, BAE, to build fighter planes. Not only did Blair intervene in the promotion of the sale, but he also called off a subsequent Serious Fraud Office investigation into bribe allegations concerning an earlier BAE contract with the Saudi government (Cornerhouse, 2007). This affair illustrates the importance of government in what is, in effect, sales activity on behalf of companies. The fact is that some investments and sales bring such risks that, unless they are backed by stable states, are too great to facilitate transactions they would fail. For risks relating to exports, governments provide below-market-cost insurance services in the form of Export Credit Guarantees (ECG), which cover companies against corruption, fraud and other risks. The World Bank also issues guarantees through its Multilateral Investment Guarantee Agency. Although governments often run surpluses on ECG accounts, especially during economic upturns, the value of ECGs to companies far outweighs the costs of the premiums paid (Ingram and Ingram, 2003). The high risks involved make commercial insurance untenable or would make it prohibitively expensive. Thus where there is a higher risk of instability, fraud or sales falling through, government-backed insurance is essential. The fact that governments run surpluses on ECG accounts also masks the size of the subsidy that is effectively enjoyed by companies. The cost of insurance secured through governmental ECGs represents but a small fraction of the market cost of commercial insurance.

Governments similarly act as 'insurers of last resort' in certain industries, where the risks to human health or the economy are so great that they will either be inadequately insured by commercial insurance services or the consequences of not acting are so grave that few, if any, governments could stand idly by. The Organisation for Economic Co-operation and Development (OECD), for instance, requires its member states with nuclear power plants to agree to cover the liabilities of these industries, beyond a designated amount, in the event of a serious accident.

The most direct, and therefore bottom-most, category of corporate welfare on the continuum consists of cash-based revenue and capital grants to firms. These are often time limited or targeted on certain production efforts and are generally made directly to businesses as one-off payments or regular contributions over a period of time. They range in value from a few thousand to tens of millions of pounds. Revenue grants are provided to ailing industries that are suffering long-term decline or temporary crisis and they help to nurture new or economically important industries (Levdas and Mendrinou, 1999). Capital grants are provided to a range of sectors in order to encourage certain investment activities, such as to encourage the growth in the use of certain equipment, to boost economically depressed areas, to promote the use of new technologies or to increase production of certain goods or services. Although direct cash grants tend to be relatively small compared with other forms of corporate welfare their contribution to individual corporations could be hugely significant.

Understandably, governments often provide the greatest support to their most important industries. The biggest beneficiaries of revenue grants within developed economies are the agricultural, defence, aviation and transport industries. Agricultural grants tend to be used to regulate prices or make up farmers' losses by contributing the difference between target price (full economic cost) and market price. Assistance to the aviation and defence industries takes various forms: subsidies to aid research, guarantees for exports, and the engagement of senior politicians in the promotion of aircraft and weaponry to other governments. As noted above, transport is another area that many governments consider to be too important to leave to private market forces alone. Here, subsidies are used to provide important links between regions and other countries via roads, rail and air. As environmental concerns have come to play a more dominant role in policy debates, subsidies have been used to promote cleaner forms of transport – primarily, but not exclusively, in the railways. Often, rail services are owned and managed by the public sector, but subsidies are provided directly to private owners.

Cash grants do have certain advantages: they are the most quantifiable and, by and large, most controllable. They are also among the most visible forms of support. For this reason, however, companies do not necessarily favour such support (Hacker, 1982, p. 40). With non-cash benefits, there is often less scrutiny and less conditionality, and it is more difficult for governments to impose cuts (ibid.).

Where governments are unable or unwilling to provide cash benefits in this way, or where it makes sense to provide assistance in other forms, they often provide low-cost loans or make private investment streams more likely by issuing loan guarantees for financing taken out with commercial banks. In some cases governments go further and promise to underwrite the entire debts of a company (as happened with some major banks during the post-2008 financial crisis). It often does so in order to protect the interests of creditors and keep open essential lines of credit. Without the guarantee in place, lenders will either not lend at all or will do so at prohibitively high rates. For the most important industries governments act as banker of last resort where firms present too high a risk to raise funding in the open market or where, regardless of their liabilities and trading positions, companies are simply too important to be allowed to fail. The benefits to the company in question are potentially huge, but they do not stop there. Companies providing credit to 'protected companies' effectively face very little or no risk.

An alternative to cash benefits is for governments to provide tax relief or tax credits to individual firms or whole sectors. Tax relief may be provided as a time- or geographically-limited measure to encourage major new investments (as an incentive for firms to invest in new regions or low-cost processing zones), or as a rolling programme of reliefs in order to incentivise firms in some other ways. Because they are less direct than cash benefits – they are relatively difficult to quantify in terms of their cost – and because their removal entails a closing of tax loopholes or a shifting of fiscal policy, tax benefits of various kinds lack transparency and often governments have little control over their eventual cost. For these same reasons, however, they are most often preferred by companies (Hacker, 1982, p. 42).

In certain cases, governments will rescue corporations by purchasing shares in them. The reason for governments intervening in this way may be to prevent the collapse in the value or liquidity of a company, especially where its survival is central to the national interest. This form of rescue deal has been employed in a number of industries in the past, from the nationalisations of the railways, coal and steel production and major financial institutions (Whitfield, 2001) during the 1930s Great Depression and during the more recent post-2008 banking crisis.

The most familiar form of tax relief comprises allowances against capital investment, employed to encourage new infrastructure investment in plant and machinery and to socialise some of the costs of new investment. Under such schemes, companies are able to write off deductions for the depreciating value of investment (as machinery decreases in value, so companies can record the extent of depreciation as a capital cost against profits, thus reducing the amount of tax they have to pay on overall profits). Strictly speaking, the purpose of this tax break is to recognise that the value of company vehicles, machinery and heavy plant falls with age, hence governments allow companies to effectively reduce the value of their declared profits by an amount equivalent to any reduction in the value of these items. What has tended to happen, however, is that governments have allowed companies to declare depreciation rates that are far higher than any actual rate of depreciation and can provide depreciation rates that are in excess of the value of the actual investment. In various ways, therefore, governments can provide companies with generous tax breaks. Because they are open to interpretation and are loosely scrutinised, accountants can also exploit such tax rules so that the real rate of depreciation is, in practice, nowhere near as high as the capital-cost allowances firms are able to achieve (Lewis, 1972; Murphy, 2006). Often, as Lewis (1972) notes, firms report much slower rates of depreciation to shareholders than is the reality, which allows companies to pay reduced taxation in the short term. This represents a direct financial boost to the firm equivalent to a cash injection or loan without incurring any form of interest payment. It also represents a form of state subsidisation of private capital (ibid.).

Often, governments utilise capital write-offs to directly encourage increased investment, especially during economic downturns. Typically, governments allow corporations to write off large investments at above-normal depreciation levels in the early years in order to allow companies to recoup the costs more quickly. Companies are also often allowed to write off in excess of 100% of the value of investments. Lewis (1972) provides a dated, but nonetheless detailed and fascinating account of how such schemes have operated in Canada in the past, with details of the huge benefits that have accrued to some of the largest companies there.

Governments also fail to levy taxation on certain industries because of the complexities involved and because business accountants are adept at finding loopholes in tax laws (Murphy, 2006). Duty-free sales and the exemption of aviation fuel from tax fall into the former category, but both are highly significant in terms of boosting the sales and profitability of the airline industry. Indeed, airlines often use their profits from duty-free sales in order to cross-subsidise passenger tickets and so achieve a competitive advantage. The latter category is made up of a constantly shifting landscape of legal loopholes, caveats and tax-avoidance schemes that keep accountants busy and boost the annual profits of large companies in particular. Firms also benefit from free or low-cost access to public land and are granted rights to exploit natural resources, including, for instance, access to untapped natural resources and fishing rights. Thus, through various direct and indirect methods, governments intervene at every stage of corporate life in order to facilitate the satisfaction of business needs. And, as subsequent chapters illustrate, extensive levels of corporate welfare measures aimed at satisfying the needs of private businesses exist in all the major economies. This is not an easy task in practice, however, since the needs of businesses often vary over time, between industries and sectors, and within different national contexts. This is the subject of the following section.

Variable needs

The above section illustrates that the needs of business organisations and citizens can be reconciled through diverse state interventions at different times, but that, there are also key moments when the needs and demands of both collide and conflict. The important issue here is that corporate needs in particular vary between businesses and they are context-sensitive. This makes the conceptualisation and the satisfaction of business needs very complex. We need to understand why and how business needs vary and the following section outlines nine factors that are pertinent here in which needs vary.

First, to paraphrase Doyal and Gough (1991), needs may be satisfied in different ways at different times and within different spaces. In the case of business in particular, notwithstanding the fact that the basic need for profit is universal, the specific needs of individual firms and the systemic needs of different capitalisms create and necessitate different state solutions (or need satisfiers). To put it another way, in any one national space and at any one time, the mix of state programmes that meet the needs of business and citizens can, and does, change. Welfare programmes can be highly variable as a result.

> The common 'need' of capital is to make profits, but the institutional structures and policy patterns (the 'specific satisfiers') which contribute to this can and do vary.... welfare states can provide a competitive advantage to private capital and at the same time encourage different forms of capitalism with different moral underpinnings and welfare outcomes.
>
> (Gough, 2000)

It follows, then, that corporate demand for, and dependence on, the state is influenced by, among other things, the economic cycle; the need for state assistance increases during economic downturns and declines during periods of growth (Wren, 1996; Zahariadis, 2008).

O'Connor (1973) takes this argument further by arguing that without the state facilitating and compensating the victims of capitalism, contemporary capitalism would not have developed and survived in the way it has. Each new phase of capitalism has brought new demands and new needs, and nation states have facilitated the evolution of capitalism by socialising some of the associated costs. The greater focus on the knowledge economy, high skills and high technology in the late 20th century, for instance, has only been possible with heavy state intervention and a deliberate strategy on behalf of governments to invest in new industries, education and high-tech R&D. Moreover, most economies, including the most developed liberal economies today, engaged in strategic protectionist practices in order to help them to become established within the global economy (as many developing countries have tried to do subsequently, with varying success, in the face of pressure from developed economies). As Chapter 2 makes clear, however, we have to distinguish here between the satisfaction of the needs of individual firms and the systemic needs of capitalism as a whole.

Secondly, related to this previous point, corporate needs are, to some degree, created. As capitalism evolves, new needs are generated that states (and others) have to respond to and, according to Marxists, ultimately meet (Wetherly, 2005). And state responses to these needs can, according to O'Connor (1973, p. 24), help to either reinforce or establish new needs with the result that corporations become ever more dependent on governments. Thus, just as some citizens depend more heavily on the state than others, some firms and certain sectors depend more heavily on the state to satisfy their needs. The extent of this dependency varies according to the size of the firm, the size of its workforce, its skills requirements and the subsequent impact on wages and sales. But it also varies according to its state of development. By responding to, and satisfying, the needs of businesses, governments effectively shift some of the costs that would otherwise fall on individual firms, and socialise them so that they are spread more widely.

Thirdly, the state's perceived importance of the needs of businesses vary according to their global reach and size. The needs of domestic companies tend to trump those of foreign firms; the needs of some sectors (e.g. agriculture) are often treated with more importance than other sectors; the needs of large employers that dominate certain regions are often considered more deserving. Corporations within the non-competitive sector (i.e those enjoying oligopolistic positions), for instance, will 'need' and seek protection against new market entrants and assistance in managing their workforce (which tends to be large and, often, more heavily unionised) to protect their positions. Critics may argue that such corporations do not 'need' such protection but only have a preference for it, since a lack of support may result simply in a change to rather than the demise of a given company, but monopolies may actually develop in certain industries precisely because their economies of scale and market dominance are essential to their continued survival. Companies in the competitive sector, in contrast, will be more sensitive to economic fluctuations and competitive pressures from foreign firms and will push for state measures that will reduce costs and protect or increase their market positions. New entrants require unhindered access to markets and the regulation of anti-competitive practices. Meanwhile, competition drives forward profits, a basic need, although it also fosters antagonism between rival corporations.

Moreover, while all firms require access to markets, the barriers to markets will be different from business to business. Those that require access to new foreign markets are most likely to campaign in favour of the global or regional market place and for reductions in protectionist measures, including high levels of corporate welfare, or at least those provided by governments elsewhere.

Fourthly, needs may also conflict. The needs of individuals may conflict with those of corporations, and the needs of one corporation may conflict with the needs of another company. Low wage costs may help to fulfil the needs of individual firms, but these may undermine the ability of individuals to satisfy their own needs. Low wages may also hurt the sales (and so profits) of other companies. Moreover, the satisfaction of one firm's needs may be inversely related to the 'unsatisfaction' of the needs of another. One firm, for instance, may only generate sufficient sales, and therefore profits, if its competitors are unable to realise their own needs and they collapse as a result. However, the knock-on effects, on citizens who subsequently lose their jobs and smaller businesses that fail as a result of reduced consumption, may extend ever outwards.

Conflicting needs also extend to conflict over who pays for welfare. Citizens will face greater benefits if the costs of need satisfaction can be placed on corporations. This will, of course, directly impact on firms, but there may be knock-on effects even if the costs of welfare are funded from taxation on labour (which may result in higher wage demands and/or lower domestic sales (as more revenue is taken and controlled by the state). Spending on public programmes may also fuel inflation (Pfaller, 1991) and divert resources towards public services and away from private consumption the so-called 'crowding-out' problem (see Bacon and Eltis, 1976).

Related to this last point, the collection of tax revenues to pay for state assistance to fulfil the needs of either businesses or individuals may have a detrimental impact on the capacity of either interest to satisfy its own needs. Whether this occurs, of course, depends on whether, how and where tax revenues are raised.

Fifthly, the needs of one business may vary according to the distribution of corporate welfare to another. To illustrate this with an example, state assistance to company A will allow it to reduce the price of its outputs below market rates with the result that company B will be unable to trade and it will ultimately go out of business. In other words, the state satisfaction of the perceived or actual needs of company A will directly undermine the market satisfaction of the needs of company B. This is especially a problem in international trade, where provision to a particular company or sector in one country will impact the needs of companies trading in the same sector in another country. The result is that firms that compete in subsidised sectors will argue more fiercely for additional state benefits to 'level the playing field' (Snape, 1991).

Sixthly, as already noted above, corporate needs vary with firm size. Labour-intensive firms will have different needs from those of less labour-intensive firms. Larger employers face higher wage and non-wage costs and are likely to be much more dependent on state benefits, such as training, social security provision and health care, which effectively reduce these costs (and in some instances divert them in their entirety from employers to employees).

Seventhly, as already noted above, for citizens (and governments) extract benefits from corporate welfare, but the extent to which they benefit depends on the type of provision in question and how it is delivered. Trade unions push social welfare reforms (as the following chapter illustrates) but they also promote corporate welfare development when it is in the interest of workers. Corporate welfare not only helps to protect jobs in certain industries, especially from foreign competition, and by strengthening companies, it can help to preserve better terms and conditions of work. Large-scale interventions can also inject other interests and other voices into the heart of corporate governance structures. In that it can prevent business failures, corporate welfare can also have the effect of reducing market concentration. State bureaucrats have certainly been persuaded to support corporate welfare measures in the past in order to prevent the emergence of monolithic financial firms that would, as a result, hold an even more powerful position within society (Glasberg and Skidmore, 1997).

Eighthly, companies have different needs throughout their lifecycle. During their birth and infancy they require financial support, guarantees, grants for R&D and help with capital costs. During their prime, they may require ongoing support for training and assistance to help with the hiring and firing of workers, but they are less likely to require heavy and direct state assistance. Mature companies are more likely to experience a return to more dependent positions (or several periods of dependency during their lifetime), requiring cash injections, guarantees, subsidised loans, equity bailouts and so on to maintain them on life support. And when they collapse, there are often other costs for government and certainly for the former workers, investors, lenders, consumers and local communities who are left to pick up the pieces. The actual costs to the parent company may, in contrast, be minimal or non-existent, especially if they are able to extract benefits that facilitate the closure of plant in one location while it shifts its investment to take advantage of start-up benefits elsewhere. Social and corporate welfare can together help to ease such economic transitions. To take one relatively recent example, the UKs coal industry declined rapidly from the 1970s in the face of alternative cheap gas imports and increased domestic production. Politics also played a key role. Coal was a heavily subsidised 'dirty' fuel and the coal industry was heavily unionised and the union was a symbol of type of leftist agitation that the incoming Thatcher Government swore to rally against (Milne, 2004). Thus, state subsidies facilitated coal extraction and they were used to 'cull' the industry in the UK. The state picked up the costs in various forms, including redundancy and increased benefits costs and regional development programmes designed to regenerate the areas affected by the closures, not to mention the costs of 'mothballing' the mines and the cut-price price of those that were sold off. Former employees and citizens, of course, bore an even greater cost were closed or sold off. At the same time, the private or soon-to-be privatised oil and gas industries were heavily subsidised to facilitate investment in new technologies, the training of new industry experts and the exploration of the North Sea oilfields. Thus, one heavily subsidised nationalised industry was supplanted by a new, equally heavily subsidised, private industry became more competitive with state support which allowed it to eventually supplant a former heavily subsidised industry and similar developments occurred elsewhere (see OECD, 2005c).

Since the life-cycle of a firm is likely to shape not only its needs but also its demands and opinions, it is important to take such temporal factors into account when considering business opinion more generally and the relative size of corporate welfare over time. Just as social welfare expenditure varies, so too does corporate welfare, and a period of relatively low expenditure does not necessarily indicate a reduced level of need. This is important because, as the evidence presented in Chapters 4–6 and elsewhere suggests, corporate welfare provision expands and contracts at different points, challenging the common assumption, often made by governments, that the needs of business are uniform, constant and identical across sectors and business types (see Farnsworth, 2004a).

Ninthly, the needs of one part of a company may conflict with the needs of another part. A parent company may 'need' to close an unprofitable subsidiary or relocate it, to the detriment of workers in one location and the local economy. Corporate welfare may aid the closure. Individuals may lose their jobs as a result of industry closure and will bear multiple costs, perhaps extending to income loss during periods of retraining or during their subsequent job search, but these costs will be offset by state social-security payments.

In all of this discussion, it has to be remembered that social welfare fulfils key business needs just as corporate welfare fulfils key social needs. It is clear that the different elements of welfare variably satisfy the needs of people and businesses in different ways. Some respond to the specific needs of enterprises, others to the specific needs of people. If general needs are not met, people will perish and economies will collapse. If the specific needs of individuals or firms are not met, some individuals will perish and some firms will collapse. The difference is that companies may find it far easier to seek the satisfaction of their particular needs through relocating to another space than do individuals. While, ordinarily, states face a great deal of pressure to deliver services to address systemic needs, globalisation increases the power and effectiveness of business to make even greater demands. But globalisation also increases the pressures on domestic firms from foreign competition. In order to survive under global competitive pressures, domestic companies may need to be protected from other firms trading elsewhere. The range of corporate welfare measures that fulfil these needs could range from the forms of direct provision already discussed, to reductions in taxation and/or regulations. This emphasises the importance of non-cash corporate welfare measures. This internationalisation of production and markets means that, to be viable, a company must be able to access a range of benefits, but the variety of capitalism determines exactly what the package will look like in each state, or within each sector of each state.

What becomes clear in this is that the kinds of fiscal and welfare tensions identified in the 1970s are re-emerging as a result of the pressures of globalisation and, more recently, the post-2008 economic crisis. States face (or have faced) pressures to increase social and/or corporate welfare while, at the same time, they face (or have faced) pressure to cut corporate and other taxes. Quite how different states square this particular circle, and the overall welfare mix that emerges, is of crucial importance to understanding the relative combination of corporate versus social welfare undertaken by different welfare states, as outlined in the following section.

Varieties of social–corporate welfare state

The introduction to this book argued that history, policy legacies, economic structures and institutional settings are important in shaping welfare outcomes. Historical context and policy legacies shape how actors act and react (Pierson, 1996, pp. 123–63). Economic context – the strength of the economy and the relative balance between the state and the private economy – is also important in shaping political strategies and political games playing. As Steinmo, Thelen and Longstreth (1992, p. 2) put it, 'political struggles are mediated by the institutional setting in which they take place'. Political institutions shape the power of actors and also help to influence actors' perceptions of their interests (ibid., p. 5). Meanwhile, political and economic institutions help shape the interests of agents and help agents make sense, and become aware, of their available options in key policy areas (ibid.). Thus, the power and influence of competing interests varies, as does the ability of different actors to drive policies or extract benefits from the state.

Different institutional arrangements facilitate the development and preservation of different forms of welfare. If we simplify the policy environment to the competing interests of labour and business, the complexity of basic class-based positions and the importance of context become immediately apparent. At the most basic level, business and labour interests may pursue different aims in terms of welfare, each aiming to promote and further their own particular positions. Individual firms are likely to argue for fewer regulations on employment and production, and less taxation. They may also extend this apparent opposition to government and/or social welfare. But whether they adopt these positions at all depends on the economic, political and social context. As the previous section illustrated, the relative gains that firms extract from state welfare programmes are complex and not always obvious, not even to the beneficiaries, and the views of the business community may change according to how they perceive their own needs and the relative costs and benefits to them. The actual benefit that companies obtain may also vary over time, and they will certainly vary according to the size and sector of the company in question. Likewise, the benefits that labour extracts from corporate welfare will vary. The resulting tensions between and within the business and trade-union communities will inevitably rise up at certain points, but how serious they prove to be will depend on the opportunities for negotiation and compromise, which will not be the same in all states.

The source of possible tensions, divisions and contradictions is certainly huge. Small firms may oppose business taxes but benefit enormously from small business grants. Multinational firms may oppose subsidies provided by other governments to their competitors while they defend the subsidies they receive themselves. Large employers may oppose social provision but benefit hugely from the existence of in-work benefits (which lower wage costs) and state benefits, including pensions, which increase their ability to shed labour during economic downturns. Trade unions, for their part, may oppose corporate subsidies in general but fight vigorously for corporate bailouts within their own companies or in the case of certain large strategic employers. Car workers may oppose farming subsidies that force up the price of food and/or impose costs on workers in other countries while farm workers fight to defend them. And workers in the health service may fight against a redirection of resources from health to education services.

The reason for highlighting these various points of tension and conflict here is that the particular constellation of the state, its organisation and institutional arrangements are important determinants of the extent to which such conflicts can be minimised, managed or reconciled. The way in which this is managed in different states is evident in comparative welfare analysis. Two of the most important comparative welfare works in recent times, Esping-Anderson's 'Worlds of Welfare' approach and Hall and Soskice's 'Varieties of Welfare' approach, trace the commonalities and differences between welfare systems to particular institutional constellations. According to both perspectives, welfare development is determined by national histories of political struggle and coalition building across time (particularly prominent in the work of Esping-Anderson) and/or the particular mechanisms of market mediation, centring on individual firms (in the work of Hall and Soskice). Both focus on power resources, coalitions and compromises that are facilitated through different state institutional frameworks. Others add to this a more detailed understanding of how institutional context defines the particular behaviour, demands, definitions of interest and subsequent influence of actors within and outside government (see, e.g., Hacker and Pierson, 2002, pp. 277–325; Swenson, 2002).

Esping-Anderson's (1990, 1996) approach to comparative welfare-state analysis has been incredibly influential. His is, in essence, a classification of welfare systems according to their generosity and the extent to which they 'decommodify' labour markets. Decommodification is measured according to how far welfare benefits liberate individuals from having to sell their labour power. More generous benefit systems with fewer conditions attached to them have a higher decommodifying effect. Esping-Anderson categorises welfare systems into three main 'worlds': social democratic, conservative and liberal. Social democratic systems (typified by Norway, Sweden, Denmark, Finland and the Netherlands) tend to have more generous social welfare system, with universalistic coverage and relatively generous benefits that are most decommodifying. Conservative-corporatist welfare systems (typified by Italy, France, Austria, Germany and Belgium) tend to have provision of higher levels of corporatist (employer–employee) cooperation that are tied more closely to contributions. They are also less decommodifying overall and tend to rely more heavily on traditional family models to fulfil the needs of citizens. Liberal states (typified by the US, Canada, Switzerland, Australia and Japan) are the least generous, least decommodifying and place the highest conditions on benefit claimants. They also rely more heavily on private means of supporting individuals (including private pensions and private health care).

The worlds literature is especially useful in highlighting the different functions and effects of social welfare provision, but it is relatively narrow in terms of its social welfare focus and it has little to say about corporate welfare at all. It does, however, focus on the importance of class coalitions in establishing and/or sustaining universal provision within social democratic states in particular. Corporatist systems bring together employer and employee interests in formal partnerships on key issues, which forces a greater focus on medium- and long-term planning and class compromises relating to the role of state and employers in social welfare. Liberal states tend to be more adversarial in terms of class relations (although this doesn't really fit Japan) and tend to be more short-termist in general.

The varieties literature takes as its starting point the firm and as such focuses its attention on the 'ways in which social policies can improve the operation of labour markets, notably from the perspective of the firm' (Hall and Soskice 2001, p. 50), but its analysis is more on the relative compatibility of social policies with employment and economic policies rather than on broader corporate-welfare benefits. Much of the work in the varieties stable has also tended to focus on education and training services but neglect cash benefits (either to individuals or to corporations).

Hall and Soskice (2001) distinguish between coordinated market economies (CMEs) and liberal market economies (LMEs). CMEs utilise state mechanisms to bring labour and business interests together to negotiate jointly beneficial production strategies. As a result, such economies tend to be more long-termist, have longer-term financial credit arrangements in place supporting longer-term investment projects, place higher value on the social contract, and depend more heavily on high levels of skill and productivity that are underpinned by good-quality public policy (see also Scharpf and Schmidt, 2000). Because CMEs tend to have higher rates of taxation and state social support, employers face higher direct wage costs but lower pressures on non-wage costs. Companies within liberal market economies, in contrast, face short-term credit environments encouraging higher short-term returns, lower skill levels, higher labour-market volatility, lower employer coordination, poorer labour and government relations, but lower direct wage costs. Competitive advantage is gained through negotiated deals on working conditions and wage rates, and such economies tend to depend on the production of higher-quality, higher-cost goods produced within high-tech industries.

> In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships

> to build the competencies of the firm. In contrast to liberal market economies, where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies are more often the result of strategic interaction among firms and other actors.
>
> (Hall and Soskice, 2002, p. 8)

Within coordinated market economies, cooperation between various interests, primarily business organisations, trade unions and governments, ensures a level of cooperation and support that fulfils some fundamental business needs and, at the same time, may reduce (or alter the form of) corporate demands on the state. Such coordination is likely to boost social and corporate welfare as labour and business interests agree to increases in provision in one area in order to obtain increases in their own priority areas. Moreover, the engagement of business in governance tends to increase the power and influence of business associations, which, in turn, can lead to upward pressure for increases in corporate welfare (Zahariadis, 2008, p. 86).

LMEs, in contrast, tend to have more adversarial labour relations and political environments. Governments tend to adopt a more hands-off approach so that the processes associated with doing business, including employment relations, lending, borrowing, investing and purchasing, are more likely to be subject to individual negotiations between the immediate parties. In such environments, vested interests fight hard to defend their corner, corporate culture is more cut-throat and businesses sink or swim based on their own abilities to negotiate the best deal within relatively unregulated environments.

> In liberal market economies, firms coordinate their activities primarily via competitive market arrangements ... Market relationships are characterised by the arm's-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics. In many respects, market institutions

> provide a highly effective means for coordinating the endeavours of economic actors.
>
> (Hall and Soskice, 2002, p. 7)

These differences in state form impact on welfare provision. The pressures presented by globalisation are mediated differently. The general moves towards greater competitiveness and global neoliberalism present challenges to social welfare, especially to forms of provision that bring relatively few competitive advantages. And at the same time, globalisation brings with it new regulatory frameworks that seek to control some forms of corporate welfare, in particular subsidies and other protectionist measures, which will be discussed in greater detail in Chapter 3. But it is crucial to note the importance of national institutional factors in ultimately determining how these pressures are shaped and managed.

In LMEs, comparative advantage rests on the basis of effective market mechanisms and the ability of nations to compete on the basis of lower wage costs and liberal regulations (Hall and Soskice, 2002, p. 57). This will tend to put particular downward pressure on the purest forms of social welfare but preserve or stabilise corporate forms of welfare. Liberal market economies are built on welfare models that emphasise targeting, means testing and low replacement rates, and these underpin flexible, relatively low-cost labour markets. Labour interests will certainly argue for increases in corporate welfare at certain points, but generally antagonistic labour relations within LMEs will tend to bring greater levels of class conflict around the distribution of welfare benefits, especially between corporate and social welfare forms. In a battle between corporate and social welfare, trade unions will tend to defend the latter and, certainly when it comes to purer forms of corporate welfare – those targeted towards individual firms – these will tend to receive the strongest support from local trade unions and specific businesses that depend on the survival of such firms. The wider trade-union movement and other business organisations are likely to be more ambivalent, again highlighting the variability and lack of predictably of the different positions of business versus labour that emerged in the discussion of needs above. In LMEs, particular relationships between governments and businesses may prove to be important. As Nader puts it in relation to the US:

> corporate welfare programs generally do not persist on the merits. Rather, they remain entrenched and continue to grow because strong and well-organized business interests, with huge monetary concerns at stake, aggressively work to defend and expand them – often in hand with powerful Members of Congress with whom they maintain mutually advantageous relationships.
>
> (Nader, 1999)

The preservation of welfare in CMEs is less likely to be dependent on individual business relationships with government and the welfare debate less likely to be rife with class conflict. Since employers and employees tend to have more common interests and cross-class coalitions tend to be more important (even if such coalitions tend to be stronger within rather than across industries), social and corporate welfare are likely to experience less pressure. Such coalitions are likely to facilitate the development of a stronger defence of corporate welfare in order to ensure the survival of companies (which is ultimately in the interests of both employers and employees) and will tend to be used by governments to offset some of the higher costs associated with high levels of regulation. Trade unions may be more inclined to push for the maintenance of corporate welfare, since they tend to engage much more in the management and strategic decisions of the company within CMEs. This includes agreeing wage restraint or negotiating away short-term labour gains in the long-term interests of the firm. Thus, corporate welfare can help to reduce the sacrifices that workers would otherwise be likely to have to bear. More generous pensions and unemployment benefits with high replacement rates of the form often found within CMEs help to provide security to skilled labour during downturns and discourage them from shifting towards alternative, lower-skilled employment.

Corporate welfare is important in LMEs, therefore, to respond to periodic crises in capitalism and ensure that businesses can ride out economic storms. Within CMEs, it is important to offset the generally higher regulatory costs. In liberal economies, governments intervene heavily in response to systemic crisis; within CMEs, governments intervene heavily to reduce the risk of crisis. Why the difference? Because in the former it is possible to create the kinds of market condition that may spur innovation, risk taking and rapid gains. In the latter case, slower but more stable market returns prevail.

But what of the tensions within the state itself? These are only partially explored in institutionalist analyses (see, e.g., the work of Skocpol (1979, 1985, pp. 3–43; Skocpol and Amenta, 1985, pp. 572–8). Structural factors ensure that national governments, *ceteris paribus*, will strive to ensure that national economic strength is prioritised wherever possible, thus ensuring that they consider carefully the impact of both taxation and social welfare on national competitiveness. They may also recognise that multilateral attempts to reduce corporate welfare, especially subsidies, may bring benefits to their own corporations, as freer trade expands between states. On the other hand, they may try to protect national corporate interests by protecting them from international competition through the boosting of corporate welfare. For this reason, governments that are vociferous in calling for global corporate subsidy controls often have some of the strongest protection in place for their own businesses (O'Brien, 1997; Zahariadis, 2008). The key reason for this is that there exists here a classic prisoner's dilemma problem: national governments are reluctant to reduce their own subsidies unless they are clear that other governments will do likewise. Moreover, the existence of subsidies elsewhere can encourage governments that might otherwise oppose corporate welfare to increase assistance to corporations at home in the hope of defending their own national interest. They may also, of course, seek to capitalise on any reduction in international corporate welfare by preserving their own provision and boosting their own corporate welfare. Lastly, states face multiple pressures as a result of globalisation. On the one hand, governments have been undertaking moves to liberalise markets at the international level, which means reducing some forms of corporate welfare: primarily protectionism and subsidies. On the other hand, the liberalisation of the global economy has undermined the profits and competitiveness of some corporations and has increased the range of other strategies employed by states to protect businesses, for example by reducing regulations or taxation or providing other 'hidden' forms of assistance (as discussed in more detail in Chapter 4) (Zahariadis, 2008, p. 18).

Competitiveness and the welfare state

It is difficult to exaggerate the importance of the worlds and varieties literature (and related work) to the development of comparative analysis. A number of studies have been carried out that have critiqued the classifications and methods used, but few scholars would criticise the efforts and general value of these attempts to make sense of different clusters of countries. These studies have also spurred a number of efforts to move the debates on. One such development, which is especially valuable here, is the attempt by a number of studies to bring the issue of competitiveness and productivity to a discussion of welfare regimes. Such work owes a great deal to the work of neo-Marxists and their discussion of productive and unproductive welfare. This work is also often a reaction to the view that public expenditure undermines competitiveness on the basis that:

(1) Welfare states divert investment from the productive sector towards the unproductive sector. Public expenditure raises revenues on the private sector, which effectively crowd out new private sector investment.
(2) State provision increases investment in unproductive labour that does not add value, where these same resources could otherwise have been utilised to respond to new productive markets that bring the greatest economic rewards.
(3) High marginal tax rates dampen the productivity of entrepreneurs and benefits reduce the employees' incentive to work.

Although Pfaller and Gough (1991) found little evidence to support such claims in their major study of the economic impact of public expenditure, some forms of state provision are more conducive to competitiveness than others. Some forms of provision may dampen competitiveness, but other forms have the opposite effect. It is precisely this debate that has tended to boost corporate welfare and dampen social welfare in recent years.

There has been increasing interest since the 1980s in the link between economic productivity or competitiveness with the welfare state. Cerny and Evans (1999) argued that welfare states were being transformed into competition states, subsuming unproductive social welfare to policies and programmes that more clearly contributed to increased productivity and greater competitiveness. Room (2005) argued that the new emphasis on high-tech and the 'knowledge economy' was forcing states to transform state programmes and prioritise social investment. Welfare states were becoming more corporate centred in terms of their direction, function and purpose (Farnsworth, 2004a). Most recently, Hudson and Kühner (2009, pp. 34–46) sought to extend comparative analysis to a discussion of productive-protective welfare systems. This work utilised comparative data to assess the extent to which different states might be considered to be 'productive', 'protective' or have mixed characteristics that situate them somewhere between these two extremes.

Hudson and Kühner's work advances comparative analysis by focusing on the functional outcomes of social provision, as opposed to simply looking at the costs of certain categories of welfare. In other words, it focuses on the relative emphasis placed on different services in terms of their assumed effects (which tells us something about different state priorities). No category is, or perhaps ever can be, exact. But there is a problem with the underlying assumptions of such work when the supposed functions of provision are too prescriptive. This is true whether the categories of 'productive' and 'unproductive' are utilised or whether other classifications are introduced, such as 'protective' expenditure. In this book I argue that many services that are classified as social protection (including within the standard, international System of National Accounts) are highly productive (e.g. in-work benefits and start-up grants), and education expenditure (which is often assumed to be highly productive) isn't necessarily so. Whether education is productive depends on the level and form of education and the particular needs of the economy at that particular point in time (see also Wolf, 2002). In terms of this and other provision, a great deal also depends on whether we are looking at the capitalist economy in general or at individual companies in deciding whether provision is beneficial or not. The point here is not that we should direct state provision towards meeting existing business needs, however, but that state provision should itself be utilised to shape business needs. Simply aiming corporate welfare at perceived business needs is unlikely to be conducive to progressive and expansionary social welfare since the common mis-perception is that only education, training and punitive social security is compatible with competitive capitalism. We will return to this pointin Chapter 4.

These various categorisations of welfare have been critiqued on a number of grounds elsewhere – on the grounds that the classifications are inaccurate or too broad, or that the analysis is too narrow – and we don't need to rehearse them here. In terms of this study, the problem with these various approaches is that they are too narrow in terms of their focus – even with their extension to labour markets in the varieties approach and even with the inclusion of 'active labour market measures' in Hudson and Kühner's work and labour market regulations in Powell and Barrietos' (2004, pp. 83–105) work. What is more important here is how governments raise revenues, how much they spend and how and where they spend. More nuance also needs to be built into comparative regime analysis so that more distinctions can be made between different parts of the same broad types of expenditure. However, these studies are useful in making sense of state provision and how it fits into wider institutional arrangements. Although none of these studies deals explicitly with corporate welfare, it is hinted at in the worlds literature and is touched on in the varieties literature. A more detailed embedding of corporate welfare into comparative welfare studies is needed, however, in order to make sense of the fit between the two within welfare systems. This study is interested not only in a broader range of public services and benefits but also, and more specifically, in how governments satisfy, alongside human needs, the general needs of businesses and the specific needs of individual corporations.

It seems likely that different states manage the relationship between corporate and social welfare in different ways. Social and corporate welfare may, for instance, heavily compensate employers in high-spending social democratic regimes by shifting most of the costs of corporate welfare onto citizens and a large proportion of 'non-wage' costs onto the state.[2] In countries with lower levels of social welfare, governments may have to rely more heavily on corporate welfare (to offset higher non-wage costs) or may have to rely more heavily on reducing production costs in other ways (e.g. through lowering regulations or corporate taxation rates). Regardless, how governments fund and deliver welfare in the future will, in turn, help to shape the needs and preferences of citizens and businesses.

Conclusion

Individuals have clear needs regarding their ability to survive and thrive. Welfare systems help to ensure that individual needs are satisfied through the provision of financial and in-kind assistance. Cash benefits help to ensure that individuals can acquire food and shelter, and social housing or housing subsidies help to ensure they can acquire adequate shelter. Health systems can increase physical and mental wellbeing, and education systems are essential to livelihoods and participation in civil and political institutions. State welfare helps to ensure continuous access to these essential services where individuals are either unable to access labour markets or are otherwise unable to afford to consume these services. Although different welfare systems employ distinct methods of delivery and impose different conditions on access to provision, the most comprehensive systems ensure access to a range of benefits designed to assist individuals to meet the risks that they experience throughout the course of their lives.

Businesses also have needs, and state provision similarly helps to meet risks experienced over their life-course during their lives. Businesses evolve and states assist them at various stages of their evolution: from their birth, their maturation and their eventual death. They provide funding to assist in start-up costs; they carry some of the risks relating to production or investment in order to strengthen their positions; and they provide financial injections when other sources of capital are unavailable in order to stave off collapse. Businesses, it seems, need corporate welfare as much as individuals need social welfare.

The fact that businesses need corporate welfare does not necessarily undermine social welfare. Indeed, many forms of provision simultaneously fulfils the needs of businesses and citizens. What is more dangerous in terms of its impact on social welfare is when governments prioritise corporate welfare and divert social welfare resources towards this end (either in response to structural pressures or lobbying), or when governments unreasonably assume that social welfare undermines business needs. Even more problematic is when governments assume that public provision more generally undermines economic performance. What governments need to do is ensure that there is a close and complimentary fit between social and corporate welfare and that the burden of supporting the welfare state more generally is shared between all those that benefit from it. This will help to underpin stronger social-corporate welfare states. We will return to this point in subsequent chapters.

3
Competing Interests within the Globalised Welfare State

The importance of the international arena to the shaping of national welfare systems has already been alluded to in previous chapters. This chapter examines globalisation in more detail, especially as it relates to international discourse and legal frameworks governing approaches to welfare. The international context is especially important in informing our understanding of the balance between corporate and social welfare that characterises the diversity of existing welfare systems. Regulations regarding provision to and protection of national corporations have been established for some time. In the present stage of globalisation, global regulations and discourse in the area of social welfare are playing an increasingly important role in shaping national welfare systems, a process that began as far back as the 1970s. This chapter examines the international context for welfare, looking at what globalisation has meant for the distribution of power within and beyond nation states and its implications for welfare programmes. It also considers the importance of global discourse on welfare to the framing of supranational and national welfare debates. It begins with a definition of globalisation before going on to consider the importance of economics and politics to welfare policy.

Globalisation and welfare

At its simplest, globalisation refers to the dramatic increase in the flow of goods, services, economic stocks and information between people, firms and states, over increasingly large distances, during the past 30 years or so. Economic globalisation may be understood as the international growth of trade in goods and services and the huge increase in the volume of international capital transactions across borders. Political globalisation refers to the extension of political power and political activity across the boundaries of the nation state (Held et al., 1999, p. 49) and is of growing importance as international and supranational governmental organisations, such as the European Union (EU), the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO) play increasingly important roles in national policy making. Together, economic and political globalisation have huge and lasting implications for welfare systems.

Economic globalisation and the welfare state

Martin and Schumann (1997) have argued that economic globalisation:

> is turning whole countries and social orders upside down. On one front, it threatens to pull out altogether according to the circumstances of the hour, thus forcing massive tax reductions as well as subsidies running into billions.. or the provision of cost-free infrastructure ..... If that doesn't work, tax-planning in the grand style can often help out: profits are revealed only in countries where the rate of taxation is really low .... On the other front, those who manage the global flows of capital are driving down the wage-levels of their tax-paying employees. Wages as a share of national wealth are declining world-wide; no single nation is capable of resisting the pressure.

Digby Jones, then director-general of the British Confederation of British Industry, gave a business perspective on this:

> Nobody can afford to ignore the shift towards a more globally competitive world in which investors and companies are extremely mobile. Any government must create an environment that not only attracts business but also encourages companies to stay.
>
> (Jones, 2000)

The impact of such pressures on the distribution of welfare is, according to a number of authors, to prioritise economics over social protection or, as Mishra puts it, to '[exalt] the economic and [degrade] the social' (1998, pp. 481–500). The worse-case scenario is that social dumping will occur, where states are forced to retrench welfare provision in order to divert resources towards servicing the needs of inward investors or retaining existing ones:

> Welfare retrenchment becomes part of the competition to attract foreign investment and to retain domestic capital since it enables what business groups desire – lower corporate taxes, lower wages and greater labor market flexibility.
>
> (Stryker, 1998, pp. 1–49)

Such pressures are articulated in one strand of the critical literature (see, e.g., Alber and Standing, 2000; George, 1996; Mishra, 1999; Strange, 1996), which views economic globalisation as impacting on domestic policies in clear, predictable and unstoppable ways. Taxation systems are being undermined and becoming less progressive, states are finding it increasingly difficult to tax capital, while, at the same time, government subsidies are being redirected towards capital and away from labour. As a result, social welfare is being retrenched, with social protection systems being transformed into more selective and more minimalistic welfare states that promote corporate welfare programmes at the expense of social welfare programmes.

Although the globalisation critics do not put it in quite these terms, the implications of this work is that social welfare systems are being subsumed by corporate welfare priorities. Within the global economy, governments have to compete for new investment, and they increasingly have to utilise public funds to provide sweeteners to encourage new corporate investment, which only adds to the squeeze on government revenues. If they do not establish the right investment conditions, corporations will choose to invest elsewhere. Of course, the right investment conditions do not only extend to subsidies; corporations may be attracted to a country for a whole range of reasons and corporate welfare plays a significant role here. Governments are effectively forced to seek new ways of retaining existing business investment and capturing new investment.

This view of globalisation is not without its critics. Hirst and Thompson (1996), for instance, point out that there is nothing new in globalisation, that the world was, strictly speaking, as 'globalised' at the beginning of the twentieth century as it was at the end. However, as Mishra (1999) points out, welfare states were not around during earlier stages of unregulated capitalism and thus the pressures associated with globalisation, although not entirely new, have not been faced by mature welfare states. In any case, Hirst and Thompson's argument that it is more accurate to talk about the regional expansion in trade between the triad regions of North America, Japan and Europe is fast being overtaken by events in the last decade that have seen the rapid rise of China, followed by India and Brazil. Although not included in this book, these countries have also engineered this growth through the massive utilisation of their own forms of corporate welfare.

It certainly doesn't matter greatly to the pressures felt by governments whether they compete with 10 or 50 governments for corporate investment. However, the strength and the basis of international competition do. Competition for inward investment within an economic trading bloc, for instance, may actually intensify (and along with it the relative power of businesses to make ever greater demands on states) since all governments within the bloc will bring a similar level of market access. Other competitor nations may not offer quite the ease of access to certain markets, but they may compete more strongly on the basis of low labour costs. Clearly, governments may respond in various ways to this range of competitive pressures, and many will seek to utilise welfare provision in order to attract new inward investment or increase levels of investment from existing corporations.

Globalisation has not directly led to large public expenditure cuts (provided that we can separate globalisation from the 2008 economic crisis) since, as this analysis suggests, every state has options as to how it balances corporate and social welfare to manage the pressures of political and economic globalisation. But it has led to changes in welfare systems, shifting the emphasis and direction of public policy (as later sections of this chapter illustrate). Greater economic openness has exposed businesses and employees to increased external pressures and risks and, against these risks, both interests have pushed for protection, insurance and compensation (Zahariadis, 2008, p. 168). Governments have also responded to increased external risks by compensating individuals and corporations through welfare measures (ibid., p. 86; Cao et al., 2007).

Other pressures have also encouraged states to preserve or even increase expenditure. According to Garrett (1998) and (Leibfied and Pierson, 1992, pp. 333–6), globalisation has brought new social problems, a greater need for social protection and a growing constituency for Leftist parties born out of the economic insecurity that accompanies globalisation (Garrett, 1998, pp. 10–11). Governments have accordingly faced greater pressures to increase welfare expenditure. They have also faced new political realities as the following section makes clear.

Political globalisation

This next section deals with political globalisation. According to Deacon (1997), national social policies have been increasingly shaped since the 1980s by the implicit and explicit policies of supranational organisations. International rules and laws governing trade and subsidies have an even longer pedigree. Thus, in order to understand national welfare systems, we have to consider global politics alongside global economics – actors as well as structures. The major international governmental organisations (IGOs) – the EU, the WTO, the World Bank, the IMF, the Organisation for Economic Co-operation and Development (OECD), the G7, the G20, the United Nations (UN) and the International Labour Organization (ILO) – play a key role in global and national welfare politics. Some are more important in devising and policing international law and others play a direct role in determining national policies, but they are all key in facilitating and shaping international discourse that, in turn, reflects back on the policies of nation states. The influence of IGOs peaks and wanes over time, but all, with the possible exceptions of the UN and the ILO, have grown in strength and, according to Stiglitz (2002), their remit has widened. And as the international arena and associated IGOs have become more important, so supranational lobbies have sprung up alongside states to try to influence their direction.

Before examining the role of non-state actors in global politics, it is useful to say a little more about the role of national governments. Oddly, the role of national governments, national ministries and national ministers is often neglected in global policy analysis (at least beyond Washington), but even where national governments agree to cede power to supranational bodies, they often continue to perform a key function within those organisations. The most senior posts within IGOs are decided by (the most powerful) national governments and are often deeply political and strategic in nature. The head of the World Bank, for instance, has historically been nominated by the US, while the EU nominates the head of the IMF. Economists working within the World Bank and the IMF also tend to be predominantly US educated (Wade, 2001). Moreover, national leaders and ministers, especially those engaged within national treasury departments, preside over the most important supranational economic decisions. This point is key, not only to remind us of the importance of national politics to the deliberations and policies of IGOs, but also because the most crucial decisions tend to have implications for government expenditure and, therefore, they tend to bring together national representatives who are directly concerned with economic matters. As Stiglitz (2002, p. 19) puts it, the key issue is who represents different national interests:

> At the IMF, it is the finance ministers and the central bank governors. At the WTO, it is the trade ministers. Each of these ministries is closely aligned with particular constituencies *within* their countries. The trade ministers reflect the concerns of the business community.
>
> (emphases in original)

The result is to prioritise economic and business concerns (and thus corporate welfare) in international politics. Beyond this, IGOs have increasingly sought to engage with external interests, especially those that are representative of business and labour, in part to assist with policy development and partly to increase their own legitimacy and, therefore, their power relative to national governments. As a result, business and labour organisations are now better organised and have stronger voices at the international level than ever before (Balanya et al., 2000; Coen, 1997a, b, pp. 91–108; Sklair, 2001). Certain business and trade-union organisations have also become more institutionally embedded within IGO decision-making structures since the 1990s.

Although the opportunities to engage in policy processes at the international level have increased for both business and labour organisations, the former has been far more successful in organising and exploiting new openings beyond nation states (O'Brien and

Williams, 2004; Utting, 2006; Utting and Marques, 2010). Moreover, IGOs have tended to prioritise business interests within various committees and decision-making bodies, where labour has not been afforded the same advantages (Balanya et al., 2000; Farnsworth, 2005). This has been motivated by a desire to learn from business how states might develop attractive investment environments, and to obtain the backing of powerful business interests for international projects that might then be easier to 'sell' to governments. This has also been a deliberate strategy on the part of some governments. During the early 1990s, for instance, the US and UK governments wanted to establish stronger transatlantic business networks in order to strengthen the voice of international business, but also to help to establish perspectives that international organisations would then find it difficult to ignore. The result has been to boost global trade liberalisation (see Balanya et al., 2000, p. 104) and to promote corporate welfare above social welfare.

As already noted, IGOs have sought to utilise links with business to enable them to locate new solutions to the systemic problems of neoliberal globalisation. The International Chambers of Commerce have established firmer links with the UN; the European Round Table (ERT) and the Union of Industrial and Employers' Confederations of Europe (UNICE, subsequently BusinessEurope) have become more established in European decision making and the number of business associations at the international level has ballooned (see Balanya et al., 2000; Farnsworth, 2005, 2008; Sklair, 2001). For these reasons, international business groups have generally been more successful in networking across borders and forming linkages with important political and economic elites within IGOs (Sklair, 2001), including various global meetings, such as the World Economic Forum, which brings together senior business people from the largest global corporations as well as senior politicians and the heads of the major IGOs.

Because labour organisations lack the access privileges of business, they must organise more effectively than others to gain access to political elites. The trade-union movement has historically been more conservative and more inward looking – preferring to act to defend the interests of local members rather than join with unions across borders – than businesses, which have increasingly sought to seek new profits across the globe. Labour's multitudinal needs and wants make it difficult for international trade unions to find common ground on which to unite, especially beyond North and South divisions (Traxler, 1993, pp. 673–91). Labour groups have also lacked the financial advantages of business, which are even more important in facilitating unity at the international level than the national level However, the labour movement does have a voice at the international level through the ILO, the Trade Union Advisory Committee to the OECD, partnerships and networks with global civil society organisations and more formal partnerships with other national trade unions.

Economic and political globalisation has clearly created new pressures for welfare states to overcome. As Deacon (1997, pp. 195–6) points out, at the very least, welfare states have been set 'in competition with each other'. Different models of welfare, which variously impose costs and benefits on corporations, compete with each other and, accordingly, different interests on the international and national stages compete with each other. Welfare provision is an outcome of power struggles between competing interests, the most important of which has been fought between business and labour interests. But globalisation has not spelled the death knell for welfare states. Rather, it has added to the pressures on governments to utilise social and corporate welfare in different measure in order to tackle the problems associated with globalisation. Globalisation has changed the rules of the economic game somewhat so that governments have to compete more rigorously for new investment, put in place new strategies for boosting competitiveness, including new technologies, and respond to increases in unemployment, social dislocation, inequality and labour flexibility. And they have done so through modifications to their corporate and social welfare system (see also Cao et al., 2007).

Competing interests and competing perspectives on welfare

Having established the basis for changes in both discourse and practice as a result of the pressures of globalisation among key IGOs, it is useful to examine more directly the opinions of key business and labour organisations in relation to corporate and social welfare provision. As noted in Chapter 2, the relative power of labour and business groups and their opinions on key policies and programmes can prove to be decisive in shaping welfare outcomes. It is important, therefore, to investigate the views of both groups towards welfare provision. The next section seeks to examine in more detail 'general' 'class-based' opinions on welfare by focusing on international business and labour associations. The organisations investigated here ostensibly reflect the opinions of their constituencies – essentially the largest and most important employer and trade-union associations within member states – but, since they operate at the international level, they are unlikely to be bogged down by national political concerns. In this respect, they provide a good proxy for broad class interests. This section examines in particular two key international labour and business voices: the Trade Union Advisory Committee (TUAC) to the OECD and the Business Industry Advisory Committee (BIAC) to the OECD.

For TUAC, welfare states are essential to the functioning of markets. Social security is especially important to the operation of flexible and casualised employment markets. Social welfare more generally operates to support the development of human capital, 'promote balanced consumption' and 'diminish cyclical fluctuations in the economy', and increase social cohesion and solidarity without which 'modern societies cannot survive' (TUAC, 1998).

BIAC is less enthusiastic about social welfare, but it does concede that some level of state support is necessary since 'there will always be people who experience difficulties in adjusting to change despite their personal willingness to adapt' (BIAC, 1997). The implication here is that those who are unwilling to 'adapt' are undeserving of state assistance. For those who do qualify, state assistance should be provided to facilitate 're-integration to the labour market' through measures such as 'temporary income support combined with re-training and re-location assistance' (ibid., p. 5). BIAC also warns of the dangers. In many welfare states, it argues that a 'dependency culture has been created with unemployment benefits being so high that active job-seeking is discouraged' (BIAC, 1998). State benefits should be low enough so as to ensure stronger work incentives and they should be used as a tool for ensuring that 'people have the incentives to enter the labour market where their skills are most applicable' (ibid.). Thus, welfare programmes should be 'employment-oriented' and 'support work rather than inactivity' and promote 'individual responsibility' (ibid.).

More generally, the bottom line for international business is that competition, profit and productivity should always take priority, since it is only through economic growth that social welfare is affordable and sustainable.

> [S]ocial policy must be shaped in such a way that it is compatible with the long-term possibilities of the economy. High social benefits can only be financed by a corresponding high level of economic performance . . . [I]ncreased expenditure for additional social benefits is only possible within the limits of real economic growth.
>
> (BIAC, 1981, p. 84)

This view is contested by TUAC, which argues that, far from being a panacea to solve social problems, record levels of economic growth have been accompanied by 'pollution, new health and safety risks' and an 'ever-increasing monotony of work' (TUAC, 1981). Economic growth alone, TUAC argues, 'has never solved social problems' (ibid., pp. 90–1). The key problems associated with the affordability of social provision, according to TUAC, are not caused by social policies but by a failure in economic policy, especially programmes to achieve full employment. Persistently high levels of unemployment, the likes of which governments have come to tolerate since the late 1970s, have undermined the affordability and operation of welfare services, and organised labour has thus argued for a return to full employment; as an objective, this remains a top priority alongside other social goals such as eradicating poverty and social exclusion. The key strategies pursued by the trade-union movement are those aimed at promoting and safeguarding employment rights, jobs and social protection. While trade unions accept that profitability is important to all within capitalist economies, it is imperative that social objectives are fully embedded within economic policies and that economic policies have, as TUAC puts it, 'social objectives' (TUAC, 2005). Most importantly, social policies must be underpinned by economic policies directed at establishing and sustaining full employment (ibid.).

This question of the status of full employment as a policy goal is a key dividing line between business and labour interests. For labour, full employment is essential to the goals of greater equality and the fulfilment of needs. For business, however, full employment is not necessarily desirable (since it tends to force up wages), where instead it would argue that employment levels should be determined primarily by market forces. Attempts to manipulate employment levels through employment regulations come under particular attack. Business tends to argue that unemployment is caused by low levels of profitability and/or unfavourable conditions and look to government to provide solutions through, for example, ensuring increased employment flexibility, and reducing upward wage pressure (by resisting national minimum wages or strong union rights). Welfare states, according to BIAC, have created high levels of unemployment through 'rigidities in labour legislation, high non-wage labour costs, overly strict job protection, minimum wages, income taxes and overly generous benefits systems, as well as excessive administrative barriers' (BIAC, 2003).

There is thus disagreement about how to tackle unemployment. Trade unions tend to adopt a Keynesian position and argue for measures to boost economic demand (through, for example, redistributive policies, higher benefit levels and higher levels of state investment in infrastructure). Business, on the other hand, advocates lowering the barriers to employment through reductions in regulations and the transformation of social security schemes to incentivise employees to work and employers to hire. Wage subsidies operate in this way and, on balance, probably bring more benefits to employers than employees. While wage subsidies potentially increase employment levels and boost wages for some workers in the short term, they are more likely to depress wages in the medium and long term by allowing employers to lower wages and incentivising them to keep wages low (TUAC, 2005).

For business, high social-security costs and accompanying administrative burdens are the biggest barriers to job creation since they reduce profitability and discourage firms from employing new workers (BIAC, 1998). The answer for business is to reduce taxes and accompanying non-wage labour costs and to shift the welfare pendulum towards corporate welfare. Business interests seldom acknowledge the benefits they extract from the state but instead focus attention on the benefits extracted by individuals. In so doing, business has been able to argue for the costs of welfare to be placed on citizen taxpayers rather than firms.

Of all the different parts of the welfare state, education and training receives by far the most attention from international business. A great deal of emphasis is placed by business on lifelong learning, employee adaptability and preparedness to change outdated working practices, and the encouragement of better attitudes towards work. For BIAC, schooling should also fulfil an important function of fostering an 'entrepreneurial attitude' and 'favourable attitudes toward seizing business opportunities and accepting risks' (BIAC, 2001, 2002a). As for educational curricula, international business tends to lobby hard for a greater emphasis on basic skills – the teaching of maths, literacy and science (Farnsworth, 2004a, Chapter 4; 2005). With regard to adult training, a greater emphasis is placed on higher investment in science and technology subjects. According to BIAC, employers require literate and numerate employees with good analytical, organisational and communication skills.

International business has also lobbied for general increases in state spending on education and training provision and higher levels of educational participation (2004a, Chapter 4). In order to facilitate the necessary changes that business interests need would, however, require the greater involvement of the private sector in educational provision according to BIAC. Private markets and business should, it claims, play a more active role in the provision and management of education and training services. According to BIAC,

> To better adapt school programmes to the needs of the employment market, a careful analysis of the skills required for specific sectors/jobs and their broad commonalities is an essential step, which can be facilitated by close co-operation with the business community.
>
> (BIAC, 2002a)

As far as adult education is concerned, even greater involvement by business has been advocated. The ERT, for instance, envisages a much bigger role for the private sector in developing the educational services of the future. In particular, it wants to see an expansion of universities, run by corporations, along US lines. Without these changes and the increased inputs of the private sector, educational and training services would continue to fail employers, according to the ERT:

> We cannot leave all action in the hands of the public sector. The provision of education is a market opportunity and should be treated as such. Nowadays there are far more players in the higher

> education market. Industry also has a role to play. A large number of industrial companies are running their own programmes to degree standard and above, some in partnership with a university, others on their own.
>
> (ERT, 1998)

Outside education and training, business priorities have been to place pressure on governments to reduce expenditure, halt the propensity towards early retirement and increase the employability, affordability and personal responsibility of labour.

In the case of pensions and retirement, business has advocated greater private provision and argued for more flexibility in the age of retirement (BIAC, 1998), but has defended basic compulsory state pensions as an important source of income for the poorest pensioners, supplemented by second-tier occupational and private pensions and third-tier individual tax-exempt savings (ibid.). Whether in pensions or other forms of social protection, the key for business is that employers should be able to shed surplus labour with relative ease, but retain workers as economic conditions dictate. While international labour does accept the case for more flexibility around retirement ages, the key is that individuals are able to retire, or choose to work, based on their own needs. Thus, business argues that:

> Governments must create an environment in which older workers are encouraged to remain in the workforce longer, and have the necessary skills to do so. Moreover, business must be enabled to hire and retain older workers in a manner that is feasible for business within a competitive marketplace.
>
> (BIAC, 2005)

But TUAC maintains that:

> Trade unions support developing a smooth path for a flexible transition from work to retirement.... This requires not only that possibilities for retraining and 'lifelong learning' also are made available to older workers but also that the extension of working life is a voluntary decision by employees. This includes also the right of refusal of compulsory retirement. OECD

> Member governments must reflect this in their own public sector employment practices.
>
> (TUAC, 1998)

If we extend the analysis to other forms of corporate welfare, however, international business has very little to say. Where mention is made of business benefits, the general position of business tends to be one of ambivalence. On business subsidies, BIAC argues that 'Most business people would prefer to live in a world where government subsidies and incentives were unnecessary'. Business, it argues, would prefer a broader tax base with lower rates, in place of selective tax incentives, which would effectively distribute benefits to the widest number of firms. The biggest problem with subsidies, for BIAC, is that they discriminate against some firms. Thus, it supports general incentives that are available to all investors but condemns assistance that distorts competition (BIAC, 2002b).

Perhaps the cause of business ambivalence on subsidies is caused by the fact that peak-level business organisations speak both for firms that extract huge subsidies from government and for other firms that directly suffer as a result of this. This is evident if we look at sectoral voices. Hemphill writes:

> Proponents [of corporate welfare] such as Jerry Jasinowski, president of the National Association of Manufacturers, have argued that subsidies provide a long-term benefit to taxpayers by helping industries to preserve high-paying jobs and encouraging important activities that private industries cannot finance themselves.
>
> (Hemphill, 1997)

Business interests have also been duplicitous in the past on questions concerning government spending and corporate welfare, according to Lewis:

> the nature of the corporate welfare state has been obscured by the traditional moralizing of big business about the virtues of free enterprise. While they publicly denounce increased government expenditure, particularly in the form of social welfare, these champions of free enterprise actively lobby the government for

> incentive grants, research grants and tax concessions, and all manner of assistance at the individual tax-payer's expense.
>
> (Lewis, 1972)

For their part, labour organisations tend to criticise such provision where it simply benefits businesses, but they have actively supported it where it helps to protect or increase the stability of employment, although there is often a real tension between trade unions representing different sectors where the levels of corporate welfare vary widely both in the extent and in the distribution of provision. Zahariadis (2002) found that, especially within corporatist countries, unions and employers collude to demand subsidies:

> Once subsidization programs are enacted, governments have difficulty discontinuing them even after the subsidies have achieved their purpose. Programs take a life of their own and perpetuate themselves over time . . . The powerful coalitions in corporatist countries between labor and capital, which are ostensibly designed to ease adjustment pains, according to corporatist writings prove to be far more adept at maintaining high subsidization levels than the temporary coalitions in less corporatist (more pluralist) countries.
>
> (Zahariadis, 2002, p. 294)

This confirms the hypotheses offered in Chapter 2 above that coalitions of interests are likely to push for higher expenditure on welfare. Indeed, it may be that higher levels of expenditure on corporate welfare may prove to be important in future in securing higher and more sustainable levels of expenditure on social welfare. Although he also found that left-leaning governments were either more likely to provide corporate welfare or at least were less likely to reduce it.

But here there may be divisions between international and national business interests. International business interests are more likely to oppose subsidies since they are engaged in the business of promoting global trade.

As earlier work has illustrated (Farnsworth, 2005) the approaches of business and labour interests to welfare are complex but the broad arguments can be summarised as follows. Organised business, which represents business in general, appears to be rather ambivalent on the question of direct forms of corporate welfare, whereas it actively promotes general forms of assistance (aimed at stabilising the economy and assisting business in general) and campaigns to boost various forms of 'productive' welfare. It tends to push for provision that assists accumulation and profits, primarily by helping businesses to acquire a sufficiently skilled, loyal and flexible workforce (Farnsworth, 2004a, 2005). Business interests also tend to push for income-protection programmes that are selective, based on insurance and contributory principles, and controlled by employers. Organised labour tends to push for rights-based, universal and nationally based welfare systems, underpinned by full employment, income and wealth redistribution, and controlled by labour (Therborn, 1986, pp. 131–64).

At the same time that business concedes the need for some minimal levels of social provision and has lobbied for more widely distributed benefits for business, it has also campaigned for reductions in business costs and for pushing a heavier share of taxation onto workers. It has also argued for any income redistribution to be made over lifetimes rather than between rich and poor. Trade unions, in contrast, have tended to argue for welfare funded through general, progressive taxation systems, which means relying more heavily on taxes levied on the incomes and profits of employers.

These two broad positions can, of course, translate into quite different positions at the local level. Business and labour organisations may take opposing lines in terms of their core class positions but still engage in alliances in order to extract concessions for their members, even if this means supporting something they oppose (and this echo's Zahariardis' view above) support provision that is in both their interests. The category of welfare in question (corporate or social), the form it takes (subsidy, tax break, training, social protection, etc.) and the way in which it is funded and delivered affect how it is perceived and how far it is supported. Key for both business and labour is how far support can be delivered so that it brings real benefits to both interests. But how provision is perceived by different groups is also important; globalisation trends have tended to boost corporate power and this has tended to push social welfare towards business interests (see also Farnsworth, 2004a). International and national discourse has defended and promoted social policies that directly or indirectly serve the interests of business. This discourse has tended to promote indirect forms of corporate welfare but has tended to condemn direct forms of provision. Subsequent chapters will flesh out these issues and how they relate to various forms of welfare. What this discussion highlights is that there is a great deal of scope to accommodate labour and business interests within different constellations of welfare system. However, the more that corporate and social welfare are made to compete over resources, the more that business and labour organisations are likely to fight to defend their corners. At the international level at least, there has tended to be more struggle than cooperation and harmony between business and trade union visions of ideal welfare systems (see Farnsworth, 2005).

International governance and social welfare

In response to international business opinion and lobbying, the growing dominance of neoliberal ideas and the challenges presented by globalisation, IGOs have, since the late 1970s in particular, pushed welfare discourse towards what I have referred to previously as corporate-centred social policy (see Farnsworth, 2004a, 2005). This is clear if we examine welfare discourse within the major IGO: the EU, the OECD, the World Bank and the WTO. Within the EU, for instance, a growing emphasis has been placed on competitiveness and more corporate-centred policies since the 1990s. The 1997 Amsterdam summit, for example, urged that 'more attention be given to improving European competitiveness as a prerequisite for growth and employment' through the development of a 'skilled and adaptable workforce responsive to economic change'. It went on to recommend 'a reduction in the overall tax burden' and 'training and lifelong learning in order to increase employability' (Balanya et al., 2000, pp. 64–5). More recently, the Lisbon Agenda has, since 2000, pushed member states towards making improvements to education and training provision, cutting regulations and red tape on corporations, increasing work incentives, cutting non-wage labour costs and completing the internal market in services, with the aim of making Europe 'the most competitive and dynamic knowledge-based economy in the world' by 2010 (EC, 2003, 2004). In addition the EU has pushed the privatisation of telecoms, energy, rail transport, waste and postal services, and even social welfare services, such as education and health care (Balanya et al., 2003).

The OECD has also changed tack since the early 1990s. In 1994, it presented an archetypal Washington-consensus-style solution to unemployment: tackle inflation, increase wage and employee flexibility, eliminate 'impediments to the creation and expansion of enterprises', relax regulations on employment, increase employee skills and reform social protection systems to ensure they do not impinge on labour markets (OECD, 1994). By 1999, however it was promoting an altogether more interventionist and positive model of welfare that 'can ensure that those who lose their jobs are insured against loss of all their income during the period while they search for a new job' and can 'assist displaced workers to readjust to the new labour market opportunities'. However, it went on to argue that 'well administered' social provision can 'reduce resistance to change and new working practices' and enhance 'the attractiveness of the country concerned as a business location' (OECD, 1999a). Although it concluded that 'one effect of globalisation could be to increase the demand for social protection', the OECD went on to suggest that governments, under financial pressures, should make 'more effective use of the networks and skills of non-government organisations' including 'outsourcing some activities ... to the private and not-for-profit sector' in order to 'benefit from cost-efficiencies and competitive tendering' (ibid., p. 126). Finally, it argued that, because globalisation increases capital mobility, it is likely to lead to an increased burden of taxation being borne by workers, and because this will distort the labour market, this may mean that 'regardless of the need for it social protection may become more difficult to finance' (ibid., p. 137).

These statements may testify to ongoing tensions between neoliberal and other models of welfare. They certainly reveal a deeper realisation that neoliberal prescriptions that advocated private welfare were not in the interests of firms or citizens. During this whole period, BIAC made more positive noises about social policy than those that emerged from IGOs such as the OECD. This is an indication of the fact that business interests recognise, at some level, the importance of state provision even where dominant discourse suggested the opposite. By 2005 there were clear signs that the OECD was again repositioning itself on social policy, and its 2005 report, *Extending Opportunities: How Active Social Policy Can Benefit Us All,* appeared to indicate a move away from neoliberalism towards a more social democratic welfare discourse as Deacon has put it (2005, pp. 19–28). The report argued that:

> however essential economic growth is to improving people's lives, it has not been sufficient to solve all social problems. Indeed, despite greater prosperity, a substantial portion of the population in every OECD country continues to face great risks: risks of disadvantage in childhood, of exclusion from work in prime age, of isolation and limited self-sufficiency in old age.
>
> (OECD, 2005a)

Despite its more positive assessment of the potential contribution that social policy makes, however, the report does not present a clear defence of redistributive social democratic welfare systems. Whereas the report acknowledges that 'from the mid-1970s to the mid-1990s, labour and capital incomes have become more unequally distributed among the population in every OECD country' (ibid., p. 5), it places part of the blame for this on 'traditional' social policies. Active social policies, on the other hand, would help since they would 'change the conditions in which individuals develop, rather than limiting themselves to ameliorating the distress these conditions cause (ibid., p. 6). Active social policies incorporate those programmes that are outlined towards the bottom 'corporate welfare' end of the continnuum in Chapter 2. State education and training play an important role here, of course.

Extending Opportunities went on to argue that past methods of funding welfare, through redistributive taxation, were unlikely to work in the future because 'sooner or later it will be harder to redistribute yet more cash, as better-off votes may reject continuing tax increases and climbing tax rates may deter investment and work effort'. Rather, it advocated redistribution across the life course and employment-centred social policy. In this way, active social policies

> Hold the promise of reducing the negative effects of social protection systems on economic growth that have long dominated public discussions about the welfare state.
>
> (ibid.)

Extending Opportunities was designed to inform a meeting of social policy ministers in 2005. Despite the range of issues raised in the report, the substance of the final communique of the meeting mirrored BIAC's concerns by placing greater emphasis on the primacy of economic policy.

> a strong economy determines the capacity of society to achieve its social objectives. Economic growth is a critical element in providing support for families and reducing the need for government assistance. Effective economic policies are complementary to effective social policies in extending opportunities and mobilizing more assets than are currently available. Equally, effective social policies are necessary to generate economic dynamism and contribute to flexible labour markets; to ensure that childhood experiences do not lead to disadvantage in adulthood; to prevent exclusion from the labour market and society; and to ensure a sustainable system of support for the elderly. Social policies must be pro-active, stressing investment in people's capabilities and the realisation of their potential, not merely insuring against misfortune.
>
> (OECD, 2005b)

In many ways these comments echo the views of international business. In this context, the 'economic' clearly takes precedence. Social policies are viewed as being important to people, but their functioning in terms of the needs of business and employment are uppermost in terms of the priorities. Social policies should contribute to economic growth by creating greater flexibility within employment markets and assisting those who are not yet, or no longer, needed by employers. To put it another way, neoliberal politics tends to push social welfare closer towards corporate welfare.

Moving now to the World Bank, there have also been key changes in its approach to welfare programmes since the 1990s. Generally speaking, it has become more positive about the impact of social provision on social and economic infrastructure and more accepting of the need for state-coordinated social policy. Evidence of a more positive endorsement of social policy can be found in many issues of the World Bank's *World Development Report*, especially those published after the mid-1990s, but the overriding message remains that poverty eradication and welfare services are only possible if positive business environments are promoted, and within this, the World Bank tends to stress investment environments that will attract foreign investment. The *World Development Report* of 2005, for instance, proclaims that it is aimed at:

> creating opportunities for people to escape from poverty and improve their living standards. It is about creating a climate in which firms and entrepreneurs of all types – from farmers and microenterprises to local manufacturing concerns and multinationals – have opportunities and incentives to invest productively, create jobs, and expand, and thereby contribute to growth and poverty reduction . . .
>
> (World Bank, 2005)

The policy prescriptions that flow from this basic role are primarily concerned with boosting business interests by creating improved investment opportunities. Within the Bank there has been a realisation since the mid-2000s that social policies can make a contribution here – that regulations, corporate taxation, education and some forms of (targeted) social protection promote the best possible investment climates for business.

> The investment climate should benefit society as a whole, not only firms. Well-designed regulation and taxation are thus an important part of a good investment climate. And the investment climate should embrace firms of all types, not just large or influential firms . . . . [E]fforts to improve the investment climate need to go beyond just reducing business costs. Those costs can indeed be extraordinary in many countries, amounting to several times what firms pay in taxes. But policy-related risks dominate firms' concerns in developing countries and can cripple incentives to invest. And barriers to competition remain pervasive, dulling incentives for firms to innovate and increase productivity. [P]rogress requires governments to address important constraints in ways that give firms the confidence to invest – and to sustain a process of ongoing improvements.
>
> (World Bank, 2005)

This evolution in World Bank thinking has been facilitated as much by the opportunities created by institutional changes within the institution as by business lobbying. Indeed, the Bank is divided, according to Wade (2001), between its financial and civil society wings. In many ways, the neoliberal financial wing of the Bank is following broadly structural constraints in setting economic policy while the social welfare wing is paying greater heed to the arguments of various political lobbies, including civil society and internationally organised business.

In terms of specific services, the World Bank's position echoes that of the International Business Organisations (IBOs) that private markets should be relied upon more heavily. In terms of primary education, the World Bank has tended to push knowledge-driven economic development, private markets (with some public intervention), basic health services and basic pensions (funded through public and private means) (Farnsworth, 2008). This ambivalence within the Bank also applies to non-sectoral IBOs. As already noted above, IBOs, like national organisations that represent general business interests, look to the US system and are deeply concerned about the impact of private health insurance on wage costs. The service industry, on the other hand, together with private health firms, views health and education markets as offering great potential for the expansion of new markets. The World Bank's view on social welfare might best be summarised as pragmatically neoliberal. Unhindered markets are generally regarded as best, although pragmatism and the need to ensure that citizens are not unduly penalised by virtue of the fact that they are effectively barred from operating within labour markets (by age or disability barriers) means that some (minimal) state provision and intervention is accepted as necessary. However, private markets, or public-private solutions, are thought to be a better answer to many (or most) of the problems encountered in development.

For its part, the WTO has generally taken a more consistently pro-market line in state provision. The US Coalition of Service Industries has played a particularly important role in the WTO in pushing for the development of new markets in health and education services. The WTO's General Agreement on Trade in Services (GATS) indicates a determination to extend current agreements on trade to these and other services. Although governments have only agreed to a minimal expansion in the market in services, the aim of WTO negotiating rounds is 'progressive liberalisation', and once undertaken, GATS commitments are extremely difficult to reverse (Farnsworth and Holden, 2006, pp. 473–94). These are important developments for state welfare since, if implemented across the board, WTO proposals would rule out state-provided services in a whole range of areas in favour of private providers. State funding would not be ruled out – hence the number of private companies that contract with governments to provide state services, and are effectively dependent on state contracts, would increase dramatically. Market principles may also come to assume a much greater role in welfare delivery, although the greater centrality of private companies within government may simply increase the opportunities of nepotism, protectionism and even corruption that are highlighted as issues by the American Right (see Chapter 1).

International regulatory instruments concerning corporate welfare

The following section shifts the focus onto the international regulatory framing of corporate welfare. Although there is clearly interest within IGOs in general welfare matters, as already indicated above, binding international agreements, as opposed to voluntary codes, are restricted to a relatively narrow set of policy areas. One such area where relatively tight international agreements prevail is that of corporate subsidies due to their potential impact on international trade. The internationalisation of markets has further focused the minds of politicians and business people on the competitive advantages that foreign firms may enjoy as a result of the assistance provided by their own governments (see Chapter 5). Thus, while nationally states and firms have an interest in preserving state provision, they also have an interest in campaigning for international rules that restrict such support elsewhere while they maintain their own competitive advantage. As a result, the introduction of tighter international rules has resulted in nation states launching new challenges to 'trade-distorting' provision elsewhere while they struggle to find more imaginative ways of maintaining protection for their own industries (we will return to this point later).

As Pareto pointed out in the 1920s, there are a number of benefits to breaking down national protectionism as it relates to trade and, as already noted above, this includes some forms of corporate welfare. The closer integration of economies from the post-Second World War period propagated the view that free trade, rather than protectionism, was key to promoting economic prosperity for all. Successive international reforms, encapsulated in various General Agreement on Tariffs and Trade (GATT) and WTO agreements as well as bilateral and multilateral trade agreements, have accordingly sought to break down trade barriers and tariffs and have established mechanisms for challenging barriers between states. Such moves have encouraged states and business interests to explore non-tariff mechanisms for protecting national enterprises, including less visible forms of support or those measures that do not distort trade in any obvious way (and hence would be difficult to challenge under international law). Such measures increased rapidly during the 1970s and 1980s according to Bagwatti (1988). International attention accordingly turned to the targeting of hidden barriers and protectionist measures, including 'voluntary' export restrictions, which were legal under international law until 1994 (Zahariadis, 2008), and more importantly in relation to this analysis, the issue of subsidies. This has proved to be difficult since, in contrast to tariffs and physical trade barriers, subsidies are less visible, harder to define and more difficult to measure, challenge and legislate against (Zahariadis, 2008). In the case of tariffs, exporters are directly subjected to measures aimed at restricting or preventing trade. Subsidies, in contrast, involve transactions between local or national treasuries and domestic firms that are often far from transparent and may be disguised as other forms of aid, such as regional development grants (ibid., p. 5). Subsidies have therefore proved to be a far more effective and powerful tool in the protection of domestic markets than tariffs or other forms of trade barrier. They are also highly attractive for states, firms and often citizens since they can help to reduce prices, and boost exports and home production. Where states cannot impose tariffs to protect home markets, they have been able to use subsidies as an alternative form of protectionism (ibid.).

Not all subsidies are considered a problem under international law, however. The EU and WTO distinguish between subsidies that distort competition, for instance, by providing targeted help to exporting companies or companies that exist within otherwise competitive international markets. This emphasis on trade or competition-distorting subsidies has facilitated the establishment of a relatively clear definition of protectionist subsidies and has spurred a significant body of research and increased the availability of international data, albeit based on this relatively narrow definition of subsidy (see Chapters 4 and 5).

International regulations regarding corporate welfare: The case of subsidies

Of all the various forms of corporate welfare, subsidies have received by far the most attention from national and international governmental organisations. A series of international regulations on subsidies have been introduced in the post-Second World War period, most notably through the WTO (and its predecessor the GATT agreements). But even in this area there has been ongoing debate and disagreement.

One of the key problems has been finding a definition that is conceptually broad enough to accurately describe what a subsidy is but sufficiently narrow so as to identify what a subsidy is not. All the major IGOs have put forward their own definitions, and some have established international regulations, in an attempt to reduce trade-distorting subsidies within states. The OECD has railed against protectionism of all kinds, including tariffs and subsidies, since its birth in 1947. In 1978, the Treaty of Rome, which established the European Economic Community, stated that business subsidies, or state aid as it is more commonly referred to in the context of Europe, were 'incompatible with the common market' (Article 87(1)). The GATT has similarly opposed export subsidies gradually extending other forms of 'trade distorting' subsidies since the 1940s (Brewer and Young, 1998). Its successor, the WTO, has, since its establishment in 1995, sought to put in place still tougher measures. It established a new agreement on Subsidies and Countervailing Measures (SCM), which defined subsidies broadly to include any 'financial contribution by a government or any public body' to private businesses. This included direct transfers of funds, including potential transfers, such as loan guarantees, foregone revenues, goods and services provided by the government other than for general infrastructure,[1] and any form of income or price support that operates directly or indirectly to increase exports of any product from, or reduce imports into, a member's territory[2] (WTO, 2006). The WTO's SCM agreement also spelled out a range of prohibited, actionable and permitted subsidies and set out the procedures under which governments could require the removal of the former or else face punitive countermeasures. The Uruguay Round further set out a 'rule of reason' approach to actionable subsidies in order to test whether 'serious injury' is likely to be caused to domestic firms within another member state.

Taken together, these agreements include some of the key forms of state support, but they are also limited. The OECD's framework excludes some forms of cash subsidy; for example, financing for capital formation (which effectively excludes a major part of the 2008 financial rescue packages), and assistance awarded through international organisations, including EU programmes. It also excludes non-cash assistance. The WTO's framework requires states to submit regular notifications of subsidies, but the rules are interpreted differently by states, and ultimately the WTO has limited ability to sanction states that fail to comply with the rules or provide subsidies that go against WTO rules – it is for individual member states to seek recourse against another member (Zahariardis, 2008).

The EU avoids the ambiguity that can creep into general definitions and rules regarding subsidies by focusing only on trade-distorting state aid; that is, subsidies that favour particular firms or industries in one state by reducing their costs and thus increasing their competitiveness relative to firms in other member states. Therefore, general measures or small-scale assistance, which are unlikely to have an impact on the competitiveness of individual firms, do not fall under state aid rules. The OECD introduced the concept of 'industrial support' in 1990 and, in 1999 'public support', to move beyond the narrower concept of subsidies (OECD, 1999b). This offered a step forward in establishing international standards in the measurement and reporting of general state support measures provided to firms, although it specifically focused on net costs to government from various forms of provision provided to industry, which is limited by the fact that some forms of provision are difficult to 'cost' and others, such as loans or credit guarantees, are systematically underestimated in terms of their costs to governments and benefits to firms (see Chapter 4).

The ambiguities that surround subsidies are increased by the fact that the exact same subsidies may be considered to be legal or illegal, problematic or acceptable, depending on a range of factors such as their geographical application. The provision of incentives to firms to locate in depressed areas is, for instance, treated favourably by both the WTO and the EU. This is positive in terms of urban regeneration, but it doesn't make the auditing process any easier because this is another layer of complexity that is likely to dampen disclosure. And under WTO rules, only subsidies that exceed 15 per cent of the total investment costs, or more than 5 per cent of sales in the case of tax subsidies, are required to be declared. Even then, there isn't a problem with subsidies provided that states can demonstrate that such provision does not favour domestic firms or distort competition between states. General, non-specific subsidies are also excluded from international treaties, which includes transport subsidies, pre-competition research and development funding, regional development assistance and environmental improvements, since they are deemed to have little or no impact on cross-national trade. Agricultural subsidies are also treated differently under international trading rules. These complex and inconsistent rules on business subsidies are important because they help to shape national policies on the extent of disclosure of corporate welfare measures and, in some cases, they incentivise governments to obscure business subsidies in order to avoid challenges from competitor nations (O'Brien, 1997). They also directly shape the quality and quantity of comparable international data which, of course, is restricted to the subsidies covered in international agreements. As such, they cover only one narrow aspect of total corporate welfare provision and there is no general requirement to declare corporate welfare more generally.

These definitional problems have translated into relatively weak and uneven international regulatory instruments. International definitions of what constitutes a subsidy are as vague as they are narrow, and national governments ensure that international attention and public scrutiny of subsidies is kept to a minimum by their tendency to pursue minimal compliance with international regulations and a deliberate obfuscation of the form and level of the business subsidies they provide. For reasons such as these, coupled with a lack of support from governments in key areas, including agriculture, attempts to abolish state subsidies to date have largely failed (OFT, 2004a; Sykes, 2003). As Zahariadis (2008) points out:

> [Although] governments worldwide have in the last 20 years signalled their support for free trade . . . bickering and the failure so far to agree at the WTO meetings . . . offer testament to the resilience of protectionism and the ability of special interests to get what they want out of their governments.
>
> [Zahariadis, 2008, p. 2]

Zahariadis goes on to argue that as corporate subsidies have come under international attack, corporations have increased their domestic lobbying for preserving existing provision or establishing new forms of assistance and protection, citing the examples of the protection of intellectual property rights and trademarks (Zahariadis, 2008, p. 4). Moreover, Thöne and Dobroschke, writing for the Global Subsidies Initiative, argue that current international regulations incentivise nations to persist in the non-disclosure of subsidies:

> A Member has little to gain from making a full and timely notification, apart from burnishing its reputation as a country that fulfils its WTO obligations. Sanctions for non-compliance are weak. Against this background, positive incentives not to notify all subsidies may gain ground.
>
> (Thöne and Dobroschke, 2008)

Indeed, it would seem prudent for governments to obscure their provision of total business subsidies in order to avoid challenges from competitor nations (O'Brien, 1997), not to mention opposition from their own citizens. This only adds to the problems with international data (although the problem should apply across the board leading to underestimates of the size of subsidies everywhere).

The key problems, therefore, with the issue of international governance are twofold: the focus is far too narrow and even these narrow regulations are inadequate to capture all forms of subsidy. Even worse, existing rules and regulations encourage states to hide existing subsidies.

Conclusion

The international arena has become increasingly important to the shaping of national welfare systems since the 1970s. The processes of globalisation have transformed power relations between actors within states, and between states and international governmental organisations. In this context globalisation has given way to two contradictory trends. First, the problems associated with globalisation have required robust corporate and social welfare measures to deal with some of the fallout. Moreover, corporate welfare measures, in the form of investment inducements, have been utilised to boost private investment and the strength of economies. Second, the move towards a more integrated global economy has required that states break down some of the major trade barriers between them, and one of the major barriers is business subsidies which, in turn, is one component of corporate welfare. In addition, neoliberal globalisation has tended to push governments towards more minimalist welfare models. The compromise that appears to have evolved at the global level has shifted welfare discourse away from human needs focused social protection measures towards more corporate-centred provision. Another way of putting this is that the pendulum has shifted away from social welfare towards corporate welfare.

4
Varieties of Support within Various Capitalisms

The following chapters examine comparative data on the size of corporate and social welfare in a number of OECD countries. Chapter 5 provides data on sectoral support within OECD countries and Chapter 6 looks at the impact of the economic crisis on national welfare systems and the impact of corporate welfare measures on social welfare in the wake of the post-2008 global economic crisis. This chapter examines aggregate comparative data from four angles. First, the general business climate is considered, with a focus on business needs satisfaction scores alongside regulations, corporate taxation and tax benefits. Secondly, it seeks to quantify some of the key benefits obtained by corporations from governments. Thirdly, the chapter attempts to estimate the relative costs dedicated to the various categories of welfare. Lastly, it plots different welfare systems according to their location on the social-corporate welfare divide.

Business climate and the satisfaction of business needs

Business needs satisfaction index

This first section examines business opinion on prevailing business environments within a number of OECD countries. It draws on data relating to elite business opinion that has been collected and collated by the World Bank and World Economic Forum. From these data a composite measure of business needs satisfaction was constructed, based on: business protection measures (property rights and investor protection), the quality of existing infrastructure; the adequacy of employee education levels and skills; the ease of market

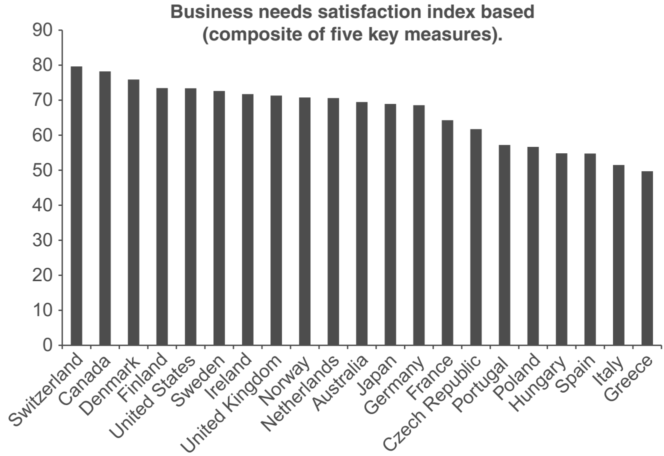


Figure 4.1 Satisfaction of business needs

entry (anti-monopoly regulations, barriers to establishing new businesses) and labour market flexibility (hiring and firing costs, labour regulations). The original data measure business approval on a 1–7 scale and the resulting 'business need satisfaction' index is plotted here against a range of other variables. Before doing this, however, it is useful to consider how 'satisfied' business in within different nations according to the measurement constructed here. Figure 4.1 plots the satisfaction index after converting it to a percentage score. Thus, a score of 100 would indicate that all business executives within the sample agree that theirs is the best business regime to operate in compared to all other countries. In this respect, this index is a good proxy for overall business satisfaction based on a range of variables. It indicates that business needs satisfaction is relatively high in all the major economies for which data are available, suggesting that these various economies are all managing to satisfy business needs at some level, although some are clearly excelling on this score. We see the highest levels of business satisfaction in Switzerland and Canada and the lowest levels in Greece and Italy (among the larger economies).

This examination of business needs raises other questions: What is the relationship between business needs satisfaction and the satisfaction of human needs, and does the shape and size of public expenditure and public services affect business satisfaction? Previous work (as reviewed in Chapter 2) suggests a trade-off between the two. Thus, we would expect to see generous social welfare expenditures accompanied by less generous corporate welfare and vice versa. But the analysis here suggests that the trade-off, if there is one, is not straightforward. Regarding the first question, there appears to be a relatively strong correlation between the satisfaction of business needs and quality of life satisfaction among citizens. Recent editions of the UN's *Human Development Report* include measures for a life satisfaction index (where a score of 10 would suggest perfect satisfaction). Figure 4.2 plots this measure of human well-being against the business satisfaction index. States that are plotted towards the top and right deliver both the highest levels of business and human needs satisfaction. From this graph it appears that states with high scores in one measure tend to have high scores in the other. This suggests a certain degree of compatibility between the satisfaction of human and corporate needs. Governments that score lowest on the business satisfaction score tend also to score lower on life satisfaction scores. The outliers are Spain, Italy and Greece, which all score highly

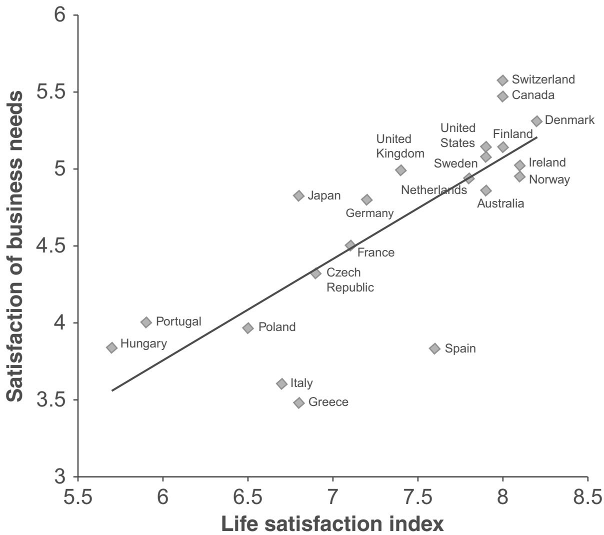


Figure 4.2 Business needs and human needs

in terms of life satisfaction relative to their business needs scores. Environments that fulfil business needs also tend to satisfy citizens' needs and vice versa. Thus the tensions and contradictions between the needs satisfaction of businesses and citizens are less straightforward than is often assumed. It is likely that these needs are reconciled in different ways in different states (see also Gough, 2000).

Business needs and public expenditure

Although there appears to be a relatively clear relationship between business and human need satisfaction, the data does not suggest a strong (or obvious) relationship between business need satisfaction and public expenditure. Figure 4.3 plots business satisfaction against public expenditure. Again, countries that are plotted towards the bottom of the graph score lower in terms of business needs satisfaction; those plotted towards the right of the graph have the highest levels of public expenditure. Although this suggests a relatively weak correlation between these variables, there are clear

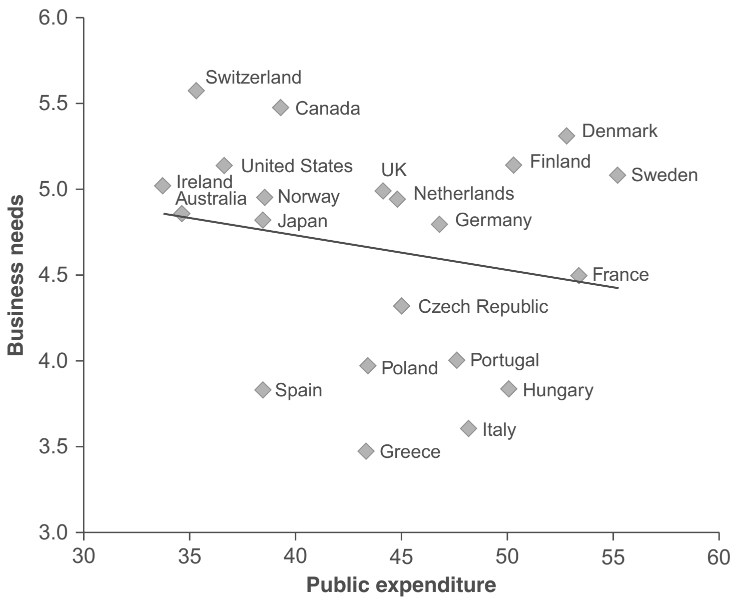


Figure 4.3 Business needs and public expenditure

country differences. Relatively low levels of public expenditure are accompanied by relatively high business needs satisfaction scores in Switzerland while Spain, with similar levels of public expenditure, achieves much lower levels of needs satisfaction. Denmark, Finland and Sweden score highly in terms of business needs satisfaction while maintaining high levels of public expenditure. Clearly it is important how states utilise resources, not just how much they spend. Other factors are also likely to be important, but again the evidence is far from clear. While liberal economies appear to score more highly in terms of business needs satisfaction, and relatively low regulations and relatively low business costs in these economies may contribute to this. But in some of the higher-spending and more highly regulated economies, including the social democratic economies of Denmark, Finland and Sweden, business satisfaction is also relatively high. It is likely that this is, in part, explained by the fact that high levels of public provision compensate businesses for any of the costs associated with higher-taxation, higher-public spending and higher regulations.

Educational needs and public educational expenditure

Although the correlation between business needs satisfaction and general expenditure is relatively weak, we find a much stronger correlation if we focus on services that are more obviously geared towards core business activities. Figure 4.4, for instance, reveals a relatively strong correlation between expenditure on educational services and the level of business satisfaction with those services. Countries that spend the least on education – Greece, Turkey, Mexico, Italy – are also those countries with the lowest levels of business satisfaction with education. The opposite is also true. Governments that spend more on educational services tend to deliver educational services that more closely satisfy business interests. This points to a potential contradiction that may be difficult to reconcile in some economies. Business needs appear to be satisfied by a combination of low taxation *and* high levels of expenditure on certain services. Another way of putting this is that businesses *need* well funded state services (or at least some state services) but they are not necessarily prepared to pay for them. This is understandable, but it provides clear evidence of the need for governments to ignore short-term

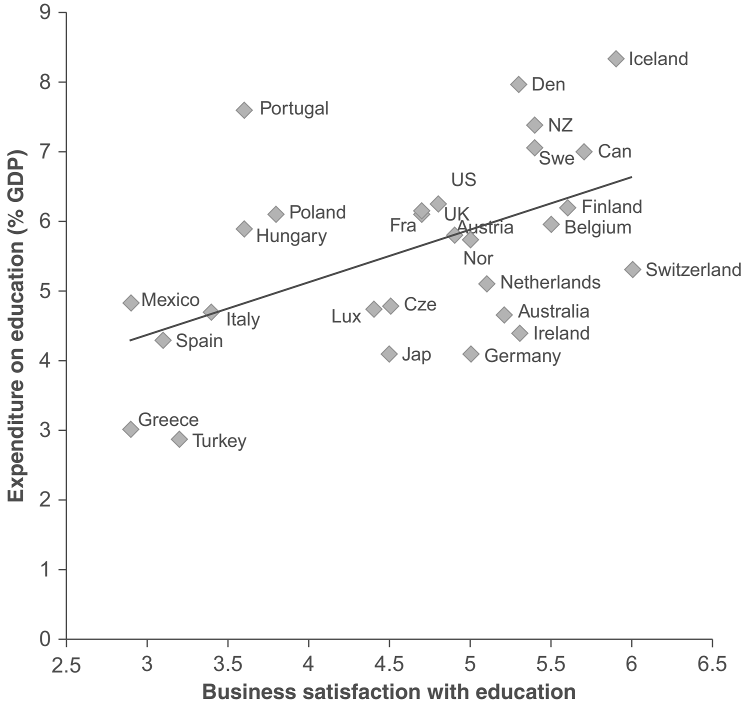


Figure 4.4 Business opinion and educational expenditure

business interests and opinions if they wish to satisfy longer-term needs.

If we turn briefly to now consider expenditure and citizens' satisfaction, we find an even stronger correlation (see Figure 4.5). Iceland, with the highest level of public funding for education, also records the highest level of educational satisfaction among citizens (this time measured on a 100-point scale, with 100 indicating complete satisfaction).[1] The lower spending economies of Greece and Turkey are revealed as having the lowest levels of citizen satisfaction. Thus, higher levels of expenditure on education are likely to increase levels of satisfaction among business and non-business interests. This is not true in all economies, but neither does it suggest irreconcilable differences between businesses and citizens, at least not on this measure.

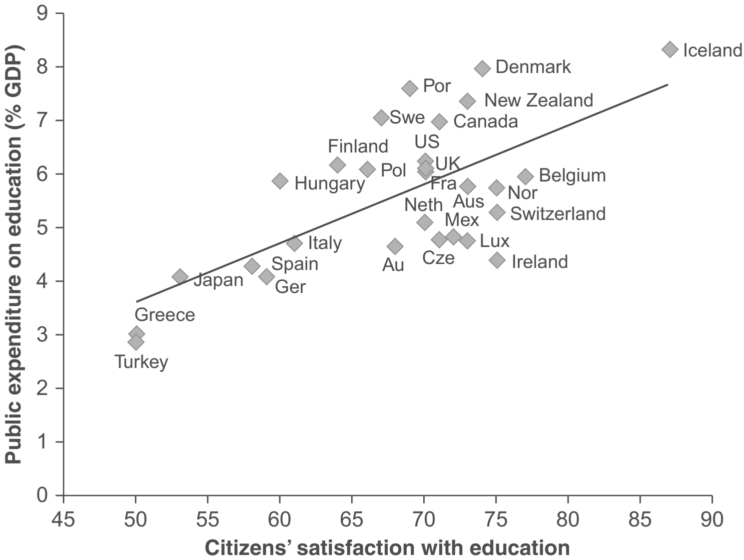


Figure 4.5 Public opinion and educational expenditure

Regulations and corporate welfare

Regulations on businesses are not commonly thought of in terms of their contribution to corporate welfare, but they often evoke the strongest criticisms from business (Farnsworth, 2004) on the basis that they impose high costs but bring few benefits. This is understandable from the perspective of individual firms. After all, the basic purpose of regulations is to reduce corporate freedoms to employ, invest and supply goods and services. They do also bring benefits to consumers, citizens and other firms, of course, but the key debate tends to focus on the costs to businesses. Regulations do impose costs, but a lack of regulations may also impose costs in the long run from under-regulated companies, and a lack of regulations can impose costs elsewhere, including on citizens.

Since regulations impose costs on corporations, it is not surprising that corporations have sought to place pressure on governments to reduce them, nor is it surprising given the growing power of business in the age of globalisation to learn that such lobbying has had an impact on the strength of regulations (see Chapter 2). But the impact has, again, been uneven, with the result that corporations in one state face higher costs from regulations than corporations in another. Thus, lower regulations in one state could bring huge cost savings to companies located there and could boost corporate profits significantly. Lower regulations will tend to reduce business costs, although they will likely impose higher costs elsewhere, most notably on workers (in the form of lower wages, more dangerous working conditions, lower pensions and more precarious working practices). Consumers, governments and corporations themselves might also suffer in the long run. One of the sectors where regulations were relaxed most rapidly over the 1980s and 1990s is the finance industry and, although it lobbied hard for lighter touch regulations, it is precisely the corporations within those states that relaxed regulations the furthest that were hardest hit in the post-2008 crisis. But insofar as they relate to all sectors, and insofar as they impose the clearest costs on employers, it is most useful to examine labour market regulations here.

Labour market protection regulations are among the most contested by business. The tighter labour market protections are, the more difficult it is for firms to hire and fire employees at will. Thus, they offer some protection for employees, but they may also impose higher costs on employers by: preventing companies from hiring and firing employees at will, employing workers only when they are needed; setting minimum wages; providing the legal basis for trade unions; and establishment a voice for employees in business operations. Not surprisingly, trade unions tend to argue for greater protection at work – from compulsory layoffs, enforced irregular work patterns, low wages and enforced overtime – while employer organisations tend to argue for greater flexibility (see Chapter 2).

Figure 4.6 illustrates the close correlation between two independent measures of labour regulations: business perceptions of labour regulations (again drawing on the World Bank's survey data) and the OECD's employment protection index (based on comparative assessments of the regulations on employers). Here countries plotted towards the top of the graph are considered to have highly flexible terms of employment with light-touch regulations. Countries plotted towards the right are considered, according to OECD's labour protection index, to have the tightest, most stringent labour market regulations. Based on these two relatively straightforward measures,

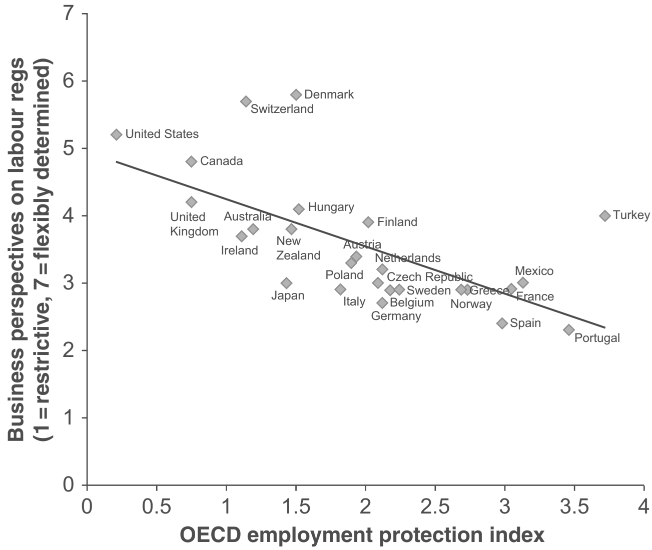


Figure 4.6 Business opinion and labour market regulations

it would appear that US employers are the most lightly regulated relative to other countries. The survey data concerning business perspectives on labour market regulations confirm this; business elites operating within the US view labour regulations as among the most flexible of any country. Portugal, in contrast, is relatively tightly regulated and, again, business perspectives confirm this. This apparent fit between business opinion and expert assessment within the OECD is remarkable for the degree of correlation revealed, suggesting that business elites have a clear sense of the extent of national and international regulatory frameworks. This, of course, has implications for policy makers since business elites are likely to use such information to argue for reductions in regulations, although trade unions could use such information to push in the other direction of course. The evidence certainly bears this out. As Figure 4.7 illustrates, regulations on corporations have tended to decrease since the early 1980s, especially in those economies that were most heavily regulated in the past. In lightly regulated economies, on the other hand, there has been some restricted movement in the other direction. In short, there

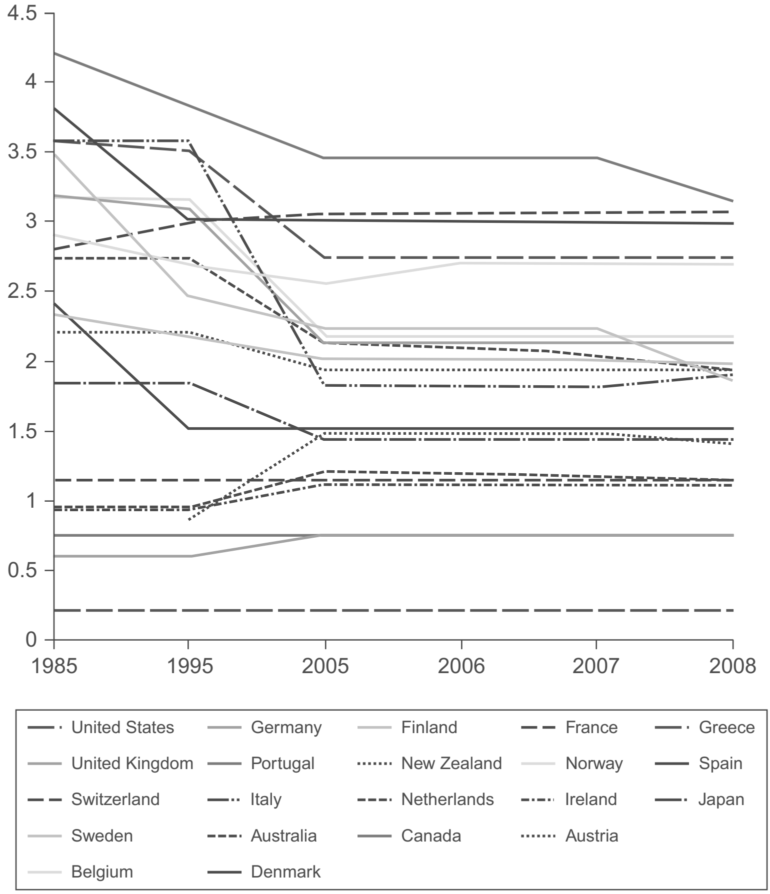


Figure 4.7 Labour market protection index, 1985–2008

has been a general convergence in terms of the extent of regulations within the major OECD economies.

To summarise, given that tighter regulations on businesses can bring higher costs, and (probably) reduced profits, those firms that operate within lower regulation regimes face more favourable business environments (all other things being equal). However, lower regulations can also simply shift these costs to other firms or to citizens. Allowing companies to more easily make redundancies is likely to push up the costs of social protection and pensions. Allowing them to pay lower wages is likely to push up the costs of in-work benefits and income top-up measures, where they exist. This is one area, therefore, where we can assume that reduced regulations may increase corporate welfare in the short term and for some corporations, but decrease the well-being of citizens and other firms in the long term. There is one further possibility, however. Higher regulating states may provide higher benefits to corporations in other forms in order to compensate businesses for any associated costs.

Corporate taxation and tax benefits

Corporate taxation

National taxation systems are important, not simply because they fund government expenditure, but also because they determine the shape of final incomes and/or profits. Thus, how taxation is levied and up on whom it falls are as important as the way in which government resources are spent (Howard, 1999; Titmuss, 1976). Tax credits, through which workers receive cash benefits through the tax system as opposed to through the benefits system, and tax breaks, which reduce the tax burden on corporations and individuals, are important mechanisms through which governments can adjust incomes upwards or downwards and encourage (or discourage) certain types of behaviours. Individuals may be allowed to write off certain forms of consumption (typically including mortgage interest payments, health and education costs and make tax-free contributions to their pensions and certain forms of savings) against tax and businesses operating in these sectors will benefit from increased sales. Corporations retypically able to write off all or a significant proportion of new investment in buildings, machinery and technology, research and development costs, corporate giving and staff benefits. All of this affects the relative tax burden imposed on businesses and citizens.

The relative tax burden imposed on corporations and citizens can be examined in at least three ways: headline rates; taxation as a percentage of all taxation; and taxation as a percentage of gross domestic product (GDP). None of these methods is without its problems, but together they build an informative picture.

The clearest picture emerges from an analysis of headline rates of corporate income tax, which reveals year-on-year reductions during the recent period of neoliberal globalisation (changes in headline rates are revealed in Figure 4.9). This suggests a decisive shift in the tax burden towards citizens. However, if we examine tax shares as an indicator of tax burden, the story is less clear. In most countries, the share of taxation that falls on corporations has increased since the 1980s. As noted elsewhere, this probably reflects a broadening of the tax base, but it may also be a result of growing profits and the expanding share of business in national income (see Farnsworth and Gough, 2000). We also have to factor into the equation tax breaks (which we will return to later).

Correlating the composite measure of business needs established above with corporate taxation levels reveals an interesting relationship between these two variables. Towards the top of Figure 4.8 are those countries that levy the highest levels of corporate taxation (as a percentage of GDP), and those towards the right of the graph record the highest levels of business needs satisfaction. This reveals that countries that levy the lowest levels of corporate taxation score relatively highly in terms of business needs satisfaction, although the lowest taxing nations also score relatively poorly. In fact, the two, highest taxing economies (Norway and Sweden) score relatively

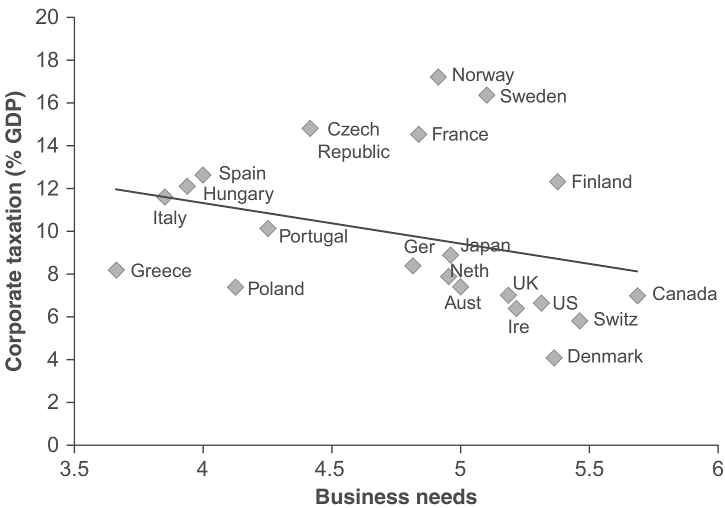


Figure 4.8 Business needs and corporate taxation

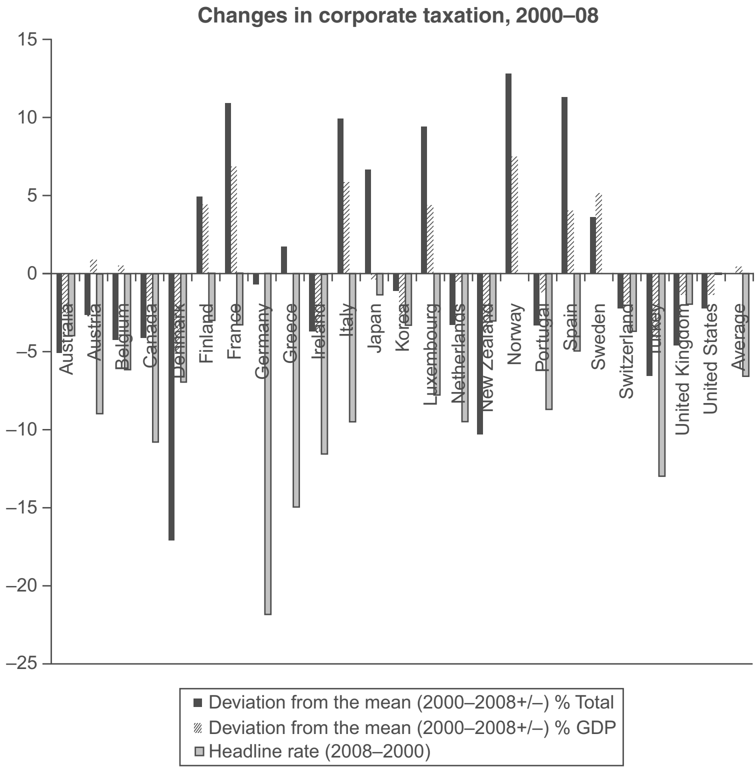


Figure 4.9 Changes in corporate taxation (headline rates and deviations from the mean)

highly in terms of business needs satisfaction, and certainly better than many other economies that levy much lower levels of corporate taxation.

Clearly, the 'costs' of doing business within one country are only one part of the equation as far as need satisfaction is concerned; the benefits that accrue to businesses are also important. While low rates of taxation may be an important mechanism through which governments can satisfy business needs in some economies (insofar as low taxation may contribute to increased profitability), levels of needs satisfaction may decline if the result of this policy is to reduce corporate welfare. Another way of understanding this is that public services can help to offset the relative costs of taxation. Here the extent to which the costs associated with state provision for businesses can be offloaded onto citizens may be key. This last point is especially important since, as already noted, most businesses require relatively high levels of investment in certain services to satisfy business needs.

An additional part of the tax-benefit equation that may be important here is that businesses are often able to pass on the costs of corporate taxation to employees (in the form of lower wages) or consumers (in higher prices). How far they are able to do this again depends on the specific economic conditions under which they produce and trade. In any case, the relative tax burden born by businesses is only one part of the equation when it comes to assessing corporate costs and benefits within states.

Notwithstanding these effects, the official data on the corporate tax burden illustrates a great deal of variability between countries. As Table 4.1 reveals, the relative tax burdens in the 2000s ranged from 7 per cent of overall taxation receipts in Denmark to 37 per cent in Norway. In most countries, the tax burden on business appears to have been relatively flat in each of the three periods between 1980 and 2008, with some significant increases in Norway and New Zealand. Denmark, New Zealand, Turkey, Australia, the UK, Belgium and Canada had corporate tax shares of less than 20 per cent, while Norway, Spain, France, Italy, Luxembourg and Japan all had rates over 30 per cent. Taken as a percentage of GDP, Italy, Norway and France impose the highest levels of corporate taxation while Turkey, Denmark, New Zealand, Switzerland, the US, Australia and Ireland have among the lowest levels of corporate taxation.

An examination of the relative corporate tax burden (taxation paid as a percentage of total taxation) and the absolute tax burden (taxation as a percentage of GDP) reveals a murkier picture than trends in headline rates. What is missing here, of course, is the benefits side of the equation. The issue of corporate tax benefits and corporate tax as a ratio of total corporate welfare will be examined in later sections.

Just as was the case with regulations, we have to consider not only the relative size of the corporate tax burden within countries but also the relative tax burden between countries in order to get a better sense of the relative costs imposed on businesses between states. As Greve (2007) puts it, 'deviation from a normal tax-system, should

Table 4.1 Taxes on corporations (income + social security + payroll taxes)

	Corporate taxation (% of total)			Corporate taxation (% of GDP)		
	Ave 1980–89	Ave 1990–99	Ave 2000–08	Ave 1980–89	Ave 1990–99	Ave 2000–08
Australia	10.53	14.45	18.89	2.94	4.12	5.80
Austria	20.03	20.88	21.27	7.96	8.83	9.19
Belgium	18.30	20.11	19.68	7.90	8.75	8.78
Canada	18.62	18.06	19.83	6.16	6.51	6.70
Denmark	4.85	4.54	6.90	2.23	2.19	3.38
Finland	21.05	26.36	28.95	8.19	12.02	12.78
France	36.25	35.41	35.05	15.15	15.30	15.30
Germany	25.35	24.05	23.33	9.11	8.79	8.35
Greece	18.41	20.71	25.73	4.53	6.12	8.32
Ireland	13.08	17.19	20.27	4.48	5.66	6.04
Italy	34.51	32.23	33.97	11.70	13.17	14.28
Japan	36.94	32.30	30.66	10.21	8.80	8.05
Korea	13.38	17.56	22.89	2.16	3.33	5.56
Luxembourg	32.03	33.08	33.46	11.96	12.20	12.73
Netherlands	24.47	16.42	20.71	10.60	6.90	7.89
New Zealand	7.93	9.87	13.67	2.62	3.49	4.80
Norway	18.76	16.50	36.84	7.97	6.78	15.86
Portugal	16.66	17.60	20.64	4.24	5.50	7.21
Spain	37.12	32.21	35.34	10.04	10.60	12.32
Sweden	29.16	29.03	27.61	14.20	14.25	13.52
Switzerland	18.94	20.32	21.73	4.94	5.52	6.38
Turkey	18.46	15.10	17.32	2.40	2.72	4.25
UK	19.99	18.57	19.31	7.31	6.36	6.88
US	21.29	21.99	21.75	5.55	6.14	5.99
Average	21.50	21.44	23.99	7.27	7.67	8.77

at the same time, be seen as a tax expenditure'. Figure 4.9 compares how far corporate tax burdens (corporate taxation as a share of overall taxation) in each country deviate from average tax burdens across all countries. It also plots changes in the headline rate between 2000 and 2008. The steep fall in headline rates has already been discussed. Figure 4.9 also reveals steep reductions in the overall corporate tax burden in some countries relative to others. In such countries, corporations will have gained a significant boost in global competitiveness (all other things being equal) regardless of what has actually happened in national fiscal policy. We can also locate 'unusually' low levels of corporate taxation in some states which again points to relatively high corporate tax benefits in Denmark, New Zealand, Turkey and Australia.

Tax benefits

As already noted, alongside official figures on taxation levels, we have to consider the benefits that accrue to corporations from the tax system itself. In 2009, the OECD compiled data relating to the value of tax benefits provided by a number of countries in the mid-2000s, which estimated the value of corporate tax breaks as 0.08 per cent of GDP in Germany but 4.5 per cent of GDP in the UK (see Table 4.2). Interestingly, the OECD argues that most of the differences between these estimates can be explained by differences in methodological

Table 4.2 Tax expenditures

International comparison of tax expenditures percentage of GDP, latest actual year available*

	Canada 2004	**Germany 2006**	**Korea 2006**	**Netherlands 2006**	**Spain 2008**	**UK 2006**	**US 2008**
Work related	0.39	0.03	0.03	0.06	0.01	0.15	0.07
General business incentives	0.41	0.00	0.68	0.48	0.52	0.77	0.41
R&D	0.24	0.00	0.15	0.07	0.03	0.04	0.09
Specific industry relief	0.05	0.01	0.18	0.18	0.04	0.11	0.23
Accelerated depreciation	0.00	0.00	0.00	0.00	0.00	1.40	0.35
Interest	0.00	0.00	0.00	0.00	0.00	0.02	0.01
Dividends	0.27	0.04	0.00	0.00	0.00	0.00	0.02
Capital gains	0.35	0.00	0.00	0.00	0.16	1.65	0.33
Make work pay provisions	0.01	0.00	0.01	0.04	0.74	0.35	0.06
Total corporate tax benefits	**1.71**	**0.08**	**1.06**	**0.84**	**1.50**	**4.49**	**1.56**

* For every country except for Canada and Spain, fiscal years rather than calendar years are used. For the UK, fiscal year 2006/7 is used (from 6 April 2006 to 5 April 2007).
Source: *Tax Expenditures in OECD Countries* OECD © 2009 – ISBN 9789264076891.

approach rather than in fiscal policy (OECD, 2009b). To put it more starkly, governments disagree on the correct way of recording tax expenditures and this is likely to underestimate their true cost, hence the UK's estimate (which is the highest) is likely to be a more accurate reflection of the true value of corporate tax benefits. And tax expenditures in the UK account for around three-quarters of corporate tax receipts. To give added perspective to this, consider this: even on this very narrowest of measures of direct corporate benefits – tax benefits plus subsidies – corporations extract more from the British state than they contribute in total taxation.

This discussion of tax benefits and taxation rates also neglects a further area of importance to this debate: tax avoidance and evasion. Tax avoidance is legal and tax evasion is illegal, hence both are largely hidden. Corporations engage in a range of practices that fall between these two, but here we will focus only on tax avoidance. Corporations understandably employ large and sophisticated accountancy firms to maximise their tax 'efficiency', exploiting the various loopholes that governments seem unable, or unwilling, to close. Indeed, governments can often be complicit in corporate tax-avoidance schemes by choosing not to take action to close tax loopholes and enforce existing corporate tax laws (Murphy, 2006). Regardless of this, the estimates of the cost to governments of tax avoidance are huge. One authoritative study of the UK's tax system by Richard Murphy (2006) estimated that the value of the tax-avoidance measures carried out by the 50 largest companies alone amounted to some £4.6 billion in 2004 and around £9.2 billion for all companies (equivalent to almost 1 per cent of GDP) (Murphy, 2006).

Public sector consumption effects

The previous section focused on factors that help to shape the business environment, and the next section begins to examine more direct forms of state provision that help to meet the needs of businesses. Before examining direct services, it is important to consider two forms of state economic engagement that play major roles in the production of goods and services within private firms: state-mediated consumption and procurement. In order to make sense of the contribution of governments to consumption, it is necessary to reflect momentarily on the fact that 40 per cent of the entire value of national economies typically passes through the hands of government. There is some debate concerning the net effect of this on the economy where ideological battle lines are largely defined by different assessments of the perceived economic benefits and harms that public expenditure has on the private 'productive' sector (see Chapter 2). For the Right, public expenditure diverts expenditure and investment from the productive and efficient private sector to the unproductive and inefficient public sector. The Left tends to argue the opposite (although the neo-Marxist 'fiscal crisis' debate mirrors some of the arguments put by the political Right see pp. 24–28 above.) If the state did not raise revenues, individuals and/or businesses would, *ceteris paribus*, retain more in the form of higher pay and higher profits. But this alternative model of free market capitalism is not simply untested and unworkable; it is also much less efficient and equitable. The effect of state intervention into the tax and benefit system is to smooth out the natural booms and slumps in capitalism and, therefore, to ensure that many companies that would otherwise fail continue to survive. This also ensures, of course, that the workers in those companies also retain jobs, thereby maintaining income levels and ultimately demands for goods and services from the private sector.

The importance of public sector wages and benefits become even clearer during periods of economic slowdown, as the post-2008 crisis revealed (Several governments, including China and the US, increased benefits and/or relaxed conditions during this time in order to boost domestic demand (see Farnsworth and Irving, 2011). Benefits are, of course, naturally countercyclical (maintaining demand during periods of growing unemployment) and, in this respect, some of the 'purest' forms of social welfare fulfil an important corporate welfare function, keeping many firms afloat during economic downturns. Public sector wages were worth around 10 per cent of GDP in the UK in 2006 and cash benefits (including pensions) were worth around 15 per cent.

Now that we have considered the indirect benefits of the public sector to private corporations, it is important to move on to the other side of the equation: public sector purchases from the private sector, commonly referred to as procurement. Procurement consists of state purchases of a range of goods and services from consultancy services, medical equipment, construction services, computing equipment and software development. Expenditure on such items amounts to less than 4 per cent of GDP in Japan but over 11 per cent of GDP in the UK (see Figure 4.10). In many economies, procurement has increased in recent years. In the UK, procurement increased by around 25 per cent between 1995 and 2005 so that 11.2 per cent of the UK economy consisted of public sector purchases from the private sector by the mid-2000s. The importance of procurement to some corporations is difficult to exaggerate. Some companies contract primarily or exclusively with their own and/or other governments. The defence industry is a key example here, but there are a range of others that operate within the transport industry, health and social care sectors and specialist outsourcing industries that are entirely dependent on government contracts (for a more detailed discussion, see Chapter 5).

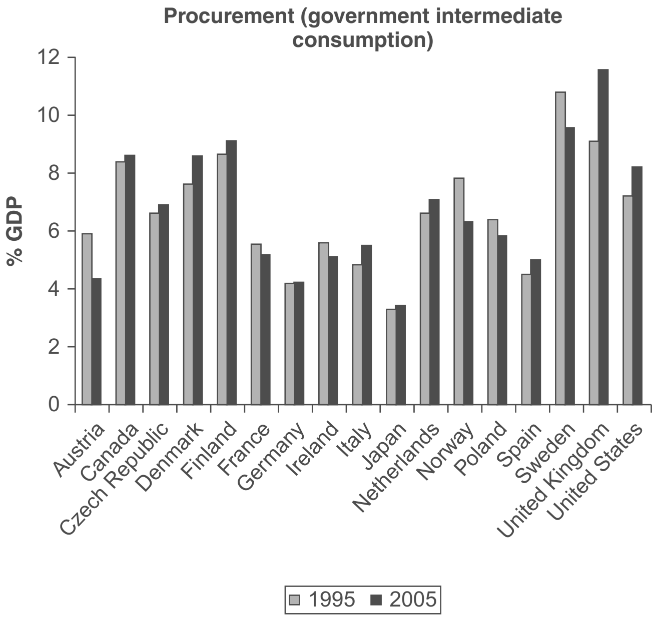


Figure 4.10 Procurement
Source: OECD, 20:20 database.

Income shares

Taxation shares are an important indicator of the distribution of costs between citizens and businesses. However, this says little about the distribution of resources between groups. To capture this, we can look at income shares between employers and employees. An examination of income shares over time reveals a growing imbalance, with the share of profits within the total economy increasing and the share of wages decreasing over time (Glyn, 2006). Since the 1970s in particular, there has been a steep fall in the share of wages and salaries in total incomes (see Figure 4.11). Thus, on the basis of this measure

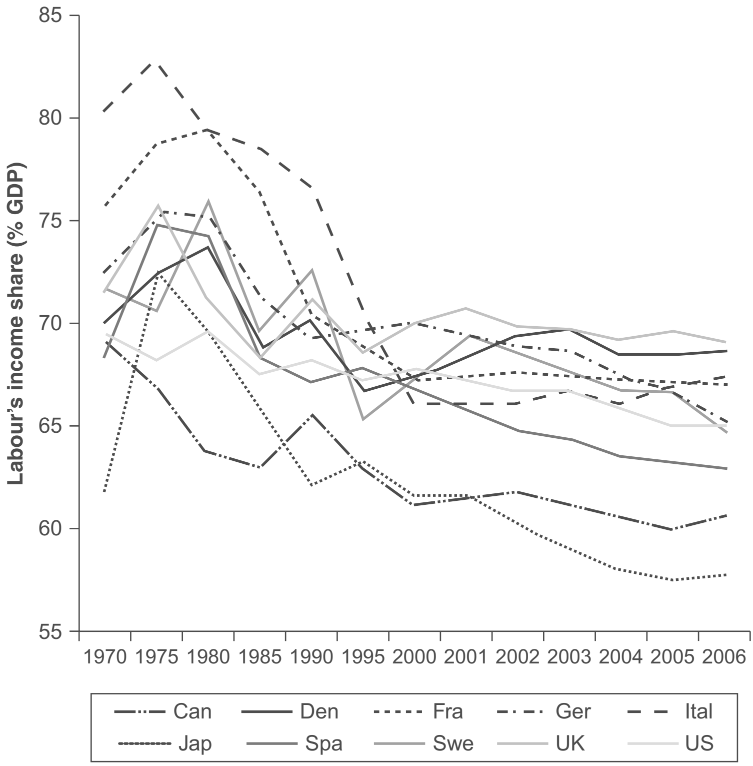


Figure 4.11 Income shares

alone, there has been a redistribution of resources towards private businesses and away from employees.

Business subsidies

This chapter now turns to direct forms of corporate welfare, beginning with the most direct business subsidies. As previous chapters have made clear, subsidies are an important mechanism through which governments directly provide financial assistance to corporations. Because they are considered to be harmful to international trade, a number of IGOs collect and collate data on subsidies. There are problems with these data, however. To begin with, there is a lack of consistency between IGOs in terms of their definitions and reporting of subsidies. OECD data includes direct grants to corporations but does not include the cost of credit lines extended to corporations or the cost of corporate tax breaks. The EU primarily captures subsidies that provide a competitive advantage to particular (predominantly larger) firms or sectors. Thus, it excludes provision that benefits all firms within a country or small amounts unlikely to have a distorting effect on trade. It also excludes aid that promotes culture and heritage or provision that is designed to facilitate regeneration within economically depressed areas or to aid recovery from natural disasters. The WTO notifications are useful in that they list some forms of provision provided to corporations, but they do not release collated data, which makes data processing difficult. The WTO notifications suffer in particular from inconsistencies in reporting among member states (see Chapter 3).

As already made clear in Chapter 3, there is also a problem of enforcement and accountability when it comes to subsidies. WTO rules, for instance, rely on nation states lodging complaints against other states. Meanwhile, governments themselves have an incentive to under-report since full disclosure would risk bringing complaints against them. There is also a great deal of ambiguity surrounding the definition of subsidy, which provides plenty of room behind which states can hide subsidies (see Chapter 3).

While international data do provide useful comparative glimpses into national subsidies, therefore, any estimate is likely to significantly underplay the extent of subsidies within states. However, since all governments face similar pressures, this problem of underestimation is likely to apply across the board, hence there is still scope for comparing corporate welfare across nations.

The analysis here makes use of the broadest possible range of available data in order to assemble cost estimates of the value of various forms of corporate welfare within a number of countries. Not surprisingly, given the discussion above, international data on the size of government support to businesses vary significantly (see Table 4.3).

Table 4.3 International subsidy estimates (% GDP)

	IMF's Government Finance Statistics Yearbook (2007)	**OECD revenue accounts (2007)**	**EC state aid less railways (2007)**	**WTO declarations (2006)**
Australia	1.36	1.43		
Canada	1.08	1.00		0.09
Czech Republic		1.77	0.73	
Denmark	2.25	2.27	0.62	
Finland	1.22	1.29	1.16	
France	1.38	1.45	0.52	0.14
Germany	1.12	1.12	0.67	0.08
Greece	0.13	..	0.32	
Hungary		1.39	1.42	
Iceland	1.82	1.79	0.12	
Ireland	0.59	0.48	0.59	
Italy	0.92	0.97	0.33	
Japan	0.64	0.59		0.15
Korea		..		
Luxembourg	1.49	1.51	0.20	
Netherlands	1.26	1.26	0.41	
New Zealand	0.28	..		
Norway	1.92	1.88	0.64	
Poland		0.62	0.60	
Portugal	1.17	1.16	1.31	
Slovak Republic		1.20		
Spain	1.06	1.06	0.51	0.12
Sweden	1.46	1.47	0.93	0.36
Switzerland	3.57	..		
United Kingdom	0.67	0.66	0.31	0.12
United states	0.38	0.38		0.32
Average	1.23	1.86	0.63	0.17

The lowest estimate is provided by the WTO, with the average declaration of national support measures being reported by nation states to be worth around 0.17 per cent of GDP. The EC estimates that average state aid is worth in the order of 0.63 per cent of GDP, while the equivalent figures for the OECD and the IMF are 1.86 per cent and 1.23 per cent of GDP, respectively.

In terms of the national picture, and looking at subsidies over the longer period of 1990–2007, Switzerland, Norway, Denmark, Sweden and Finland have provided the largest average subsidies over this period according to OECD figures, whereas the US, the UK, Japan and Ireland provide the least (see Figure 4.12).

An examination of OECD data on subsidies over the four decades between the 1970s and the 2000s reveals that subsidies declined between 1970 and 2007 (see Table 4.4). Based on official data, subsidies continued to fall back sharply in the 1990s but stabilised by the 2000s (at least prior to the crisis measures introduced in the late 2000s). This decline reflects some changes in global agreements on subsidies (see Chapter 3), although there is also evidence that 'hidden' subsidies increased as more visible forms were regulated (Zahariadis, 2008). As the remainder of this analysis makes clear,

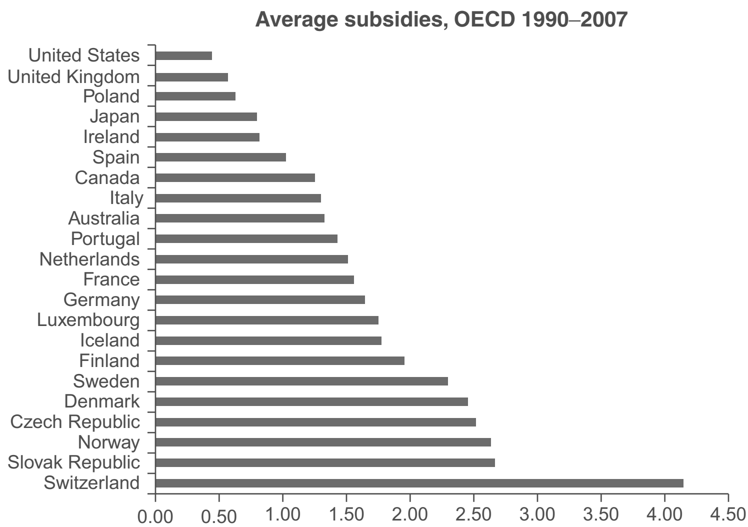


Figure 4.12 Average subsidies in the OECD, 1990–2007 (% GDP)

Table 4.4 Total subsidies in OECD countries over four decades (% GDP)

	1970–9	1980–9	1990–9	2000–7
Australia	1.14	1.54	1.31	1.36
Canada	1.55	2.32	1.31	1.20
Czech Republic		2.77	2.26	
Denmark			2.57	2.35
Finland	1.61	2.97	2.55	1.38
France	0.41	2.25	1.61	1.51
Germany			1.93	1.36
Hungary				1.54
Iceland			1.73	1.83
Ireland			1.04	0.60
Italy		2.55	1.55	1.04
Japan				0.79
Luxembourg			1.96	1.56
Netherlands	1.36	2.12	1.67	1.36
Norway			3.13	2.14
Poland			0.76	0.49
Portugal			1.41	1.46
Slovak Republic			3.66	1.68
Spain			1.02	1.04
Sweden			3.13	1.48
Switzerland			4.32	3.99
United Kingdom	2.29	1.56	0.58	0.56
United States	0.37	0.51	0.46	0.43

Source: OECD *Annual National Accounts*, Vol. 2, 1970–2007.

however, none of this means that corporations have become less dependent on public provision within states.

Business subsidies and taxation

The issue of subsidies is important because they bring direct benefits to individual corporations. While the amounts may appear small as a percentage of total taxation, subsidies can prove to be very significant indeed when viewed as a proportion of the annual turnover or profits of individual businesses (we will return to this issue in Chapter 5). And viewed at the macro level, this does beg the question of the relationship between corporate benefits and business contributions (if at all). Figure 4.13 plots these two variables. Countries situated towards the left are those that raise the lowest amount of taxation from corporations (as a percentage of GDP).

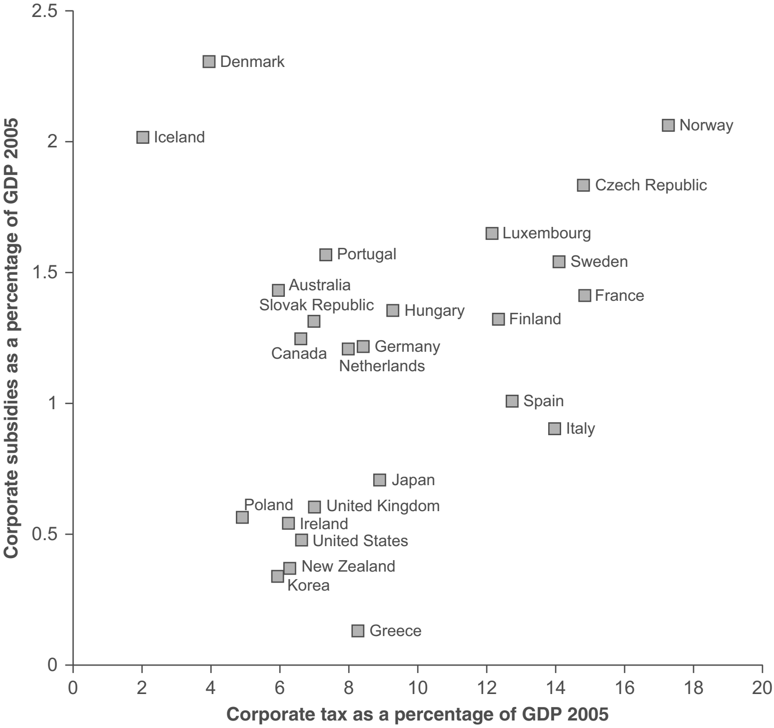


Figure 4.13 Corporate subsidies and corporate taxation (% GDP)

Those towards the top of the graph provide the highest level of subsidies. On this measure, corporations in Iceland and Denmark (the key outliers here) obtain the highest corporate benefits at the least cost. At the opposite extreme, Greece stands out as imposing moderately high corporate taxation levels while providing relatively low subsidies. Beyond these extremes, the scatterplot reveals three clusters. The first (Japan, Poland, Ireland, the UK, the US, New Zealand and Korea) have relatively low levels of subsidies but moderate levels of corporate taxation. The second cluster (Portugal, Australia, Hungary, Slovak Republic, Canada, Germany and the Netherlands) have moderate subsidy and corporate tax levels. The third (Norway, Czech Republic, Luxembourg, Sweden and France) is characterised by relatively high taxation and moderate to high levels of subsidies. Corporations within the second cluster thus obtain the highest benefits for the most modest contributions. This pattern suggests that relatively high subsidies may offset somewhat higher levels of taxation levied on companies in some states.

Relative shares of public provision

This section seeks to drill down further into the international data in order to estimate the relative value of corporate and social welfare within a number of states. This is not straightforward: the international system of national accounts (SNA), which lays down common practices for recording national taxation and expenditure, does not distinguish expenditure according to its function.[2] Table 4.5 lists the categorisations outlined in the SNA with the addition of a summary of the potential benefits extracted from public services by businesses and citizens. General public services cover some of the basic functions of government and the administration costs associated with governance at various levels. Defence and public order functions include expenditure related to defence of the nation and defence of property rights. Environmental protection services are essential to both businesses and citizens and, indeed, some of the costs associated with environmental protection are incurred because of the negative externalities imposed on the environment by corporations. Expenditure under the category of economic affairs clearly and directly services the needs of business, with much of the expenditure within this category providing direct benefits to businesses, although road and transport infrastructure also brings important benefits to citizens. Although housing and community expenditure helps to ensure adequate investment in social neighbourhoods, much of the expenditure on infrastructure development has direct positive benefits for corporations. Moreover, it is important to note that, especially in the areas of defence, construction and the utilities, it is commonly private corporations that contract with government to deliver these services (as reflected in the procurement costs already highlighted above). Only recreation and religion, of all the categories of 'collective' provision, do not bring obvious essential benefits to private businesses.

The next stage, which involves assigning proportions of expenditure to either corporations or citizens (or capital and labour) according to how far these forms of expenditure benefit either group, is contentious as O'Connor (1973), Gough (1979) and Miller (1986) have attested. However, there is a bigger risk in not attempting this,

Table 4.5 SNA expenditure classifications and business/labour shares

	Key benefits to business	**Key benefits to labour**	**Ratio of benefit (%)**	
			Bus	**Lab**
01. General public services	Covers key executive and legislative functions of the state, debt interest and government transfers – essential for government to function. Neither productive nor unproductive		50	50
02. Defence	National defence. Primarily unproductive expenditure, but manufacturers of armaments are primarily private companies. Businesses directly and indirectly (e.g. aircraft industry) benefit from contracting and state R&D investment	National defence. Jobs	50	50
03. Public order and safety	Protection and defence of private property. Establishment and maintenance of rule of law	Protection and defence of property and citizenship rights	50	50
04. Economic affairs	Maintenance of economic stability. Financial benefits and subsidies to individual companies Help and support services to individual corporations Important infrastructure	Maintenance of economic stability Important infrastructure	70	30

05. Environment protection	May operate against short-term interests of some corporations, but helps to protect general and long-term interests		50	50
06. Housing and community amenities	Investment in housing and communities brings new business opportunities. New business enterprise zones and retail zones usually accompany large housing developments. Private construction firms are the direct beneficiaries of public housing and road-building programmes. Moves to facilitate construction or grant planning consent also boost construction industry.	New housing/ amenities. Jobs.	50	50
07. Health	Speedier treatment and recovery for workers State health provision reduces claims on occupational schemes Procurement of medicine and medical goods/technology	Access to essential health services	50	50
08. Recreation, Culture and religion	Granting of broadcasting licences facilitate private broadcasting	Funding of the arts Funding and support for public recreational spaces	30	70
09. Education	Investment in human capital to facilitate production and/or increase productivity Subsidisation of R&D expenditure and training costs, especially at the tertiary level	Increased life chances; essential for realisation of citizenship rights	60	40

Table 4.5 (Continued)

	Key benefits to business	Key benefits to labour	Ratio of benefit (%)	
			Bus	**Lab**
10. Social protection	Maintenance of consumer demand during downturns Provision to help increase flexibility regarding layoffs and retirements State provision to support the care and protection of those forced to cease work because of industrial accidents Wage subsidies and other measures that reduce labour costs and increase productivity	Essential income maintenance during periods of economic inactivity Increased options and choices regarding employment (social protection decommodifies work and individuals; see Esping-Anderson, 1990)	Ratio based on the classification of social protection expenditure according to how far social protection is directed towards employers and citizens	

Source: Compiled from the UN's *System of National Accounts* glossary.

which is to underestimate (or more commonly in other studies, ignore) the relative benefits extracted from the state by businesses. The best estimates of the relative size of corporate and citizen benefits to date have been offered by Miller (1986, pp. 236–60), although his efforts to 'test' O'Connor's thesis risk some of the errors of the earlier work. Following O'Connor, for instance, he assumes that higher education, rather than basic education, fulfils business needs most fully when, in fact, organised business is as likely to complain about a lack of basic literacy and numeracy among workers as about a lack of higher education (Farnsworth, 2004a). Indeed, organised business groups have actively lobbied against the expansion of higher education in the UK, arguing instead for expanded training (ibid.). Here it is assumed that business and individuals obtain at least equal benefits from collective consumption as a whole (with business probably benefiting more from expenditure on economic affairs and citizens benefiting most from housing and community services and recreation, culture and religion. The relative rewards are probably distributed more heavily in favour of business in the area of education, in favour of citizens for health care (although business does obtain benefits in the form of healthier workers and from the direct procurement of drugs and medical products from the private sector) and broadly in favour of citizens in the area of social protection (although there are real benefits to employers from social protection expenditure, as illustrated below). Miller gets round this problem by apportioning ratios of expenditure to broad capital and labour interests. Following this work, we can here apply ratios based on similar assessments of the 'beneficiaries' of state services. On this basis, spending on education has been allocated on a ratio of 70:30 in favour of business and 40:60 in favour of citizens for health. In the case of social protection expenditure, the OECD's database of social expenditure was re-classified according to the relative benefits obtained by businesses and citizens.

In the case of social protection, relevant data were extracted from the OECD's Social Expenditure (SOXC) database and allocated according to how far provision is workplace focused. Social care services and non-insurance benefits were allocated 90:10 in favour of citizens, work-based income supplements and wage subsidies, at the other extreme, were allocated 90:10 in favour of business. Overall, the allocation of these ratios fitted closely the welfare continuum developed in Chapter 1. According to the extent to which provision is workplace focused. Again, in reality, businesses and citizens benefit in different ways from all these forms of benefits, although some benefits can be seen to more closely meet either need. Whichever way we look at it – theoretically or empirically (for e.g, based on business and labour opinion or the extent to which provision is a directly or indirectly consumed by the recipient or based on its basic function to maintain the unemployed or maintain the elderly) we have broad indicators of what constitutes a reasonable allocation although, ultimately, this method of allocation is rather arbitrary. Despite this, it is an improvement over previous attempts to allocate expenditure according to a binary classification: expenditure fulfils an accumulation function or a legitimation function.

The result of this exercise is illustrated in Figure 4.14. This reveals a ratio that ranges from 38:62 in favour of citizens in Austria and

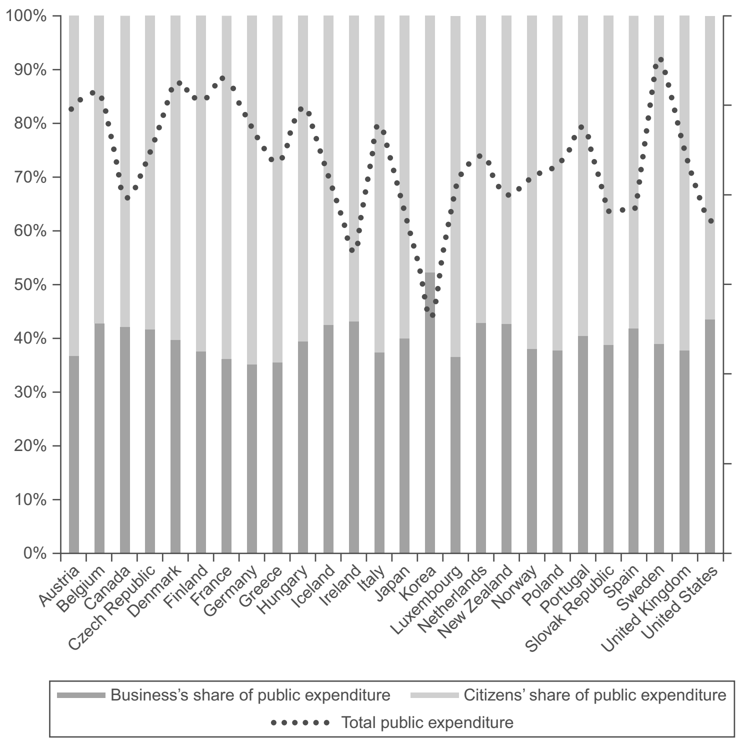


Figure 4.14 Business and citizen shares in public expenditure

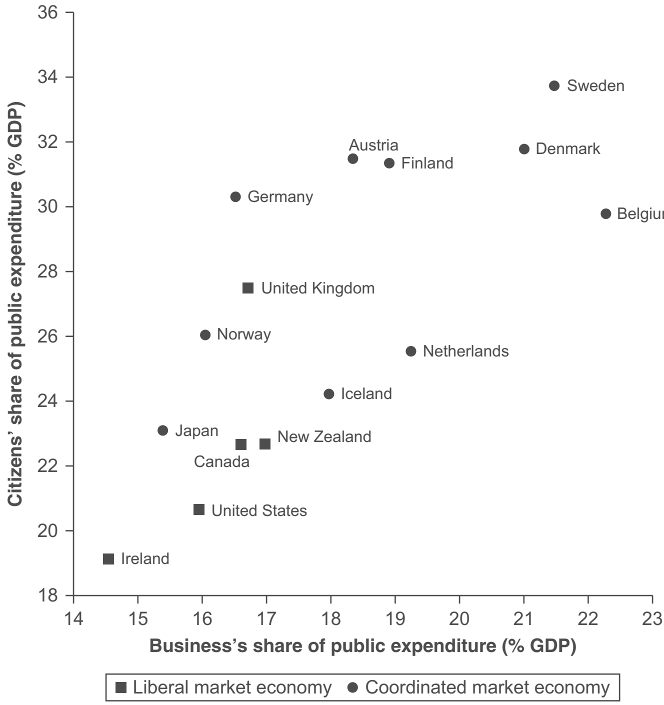


Figure 4.15 Shares of public expenditure in the varieties of capitalism

52:48 in favour of business in Korea. Figure 4.15 and Figure 4.16 plot these share but also categorise countries according to the 'varieties of capitalism' and 'worlds of welfare' classifications (discussed in Chapter 2). What this illustrates is that neither classification fits the distribution of provision well. The category of 'coordinated market economy' appears to be a useful descriptor for making sense of Ireland, the US, Japan, Canada and New Zealand, although the UK is somewhat of an outlier. But the category of 'liberal market economy' to describe economies apparently so far apart as Sweden and Japan is more problematic. Interestingly, France is closer to Sweden than it is to Germany in terms of shares of welfare, and the UK is as close to Germany and Italy as it the US.

It will not surprise many readers to learn that Sweden and Denmark are amongst the biggest spenders on social welfare, but what may be

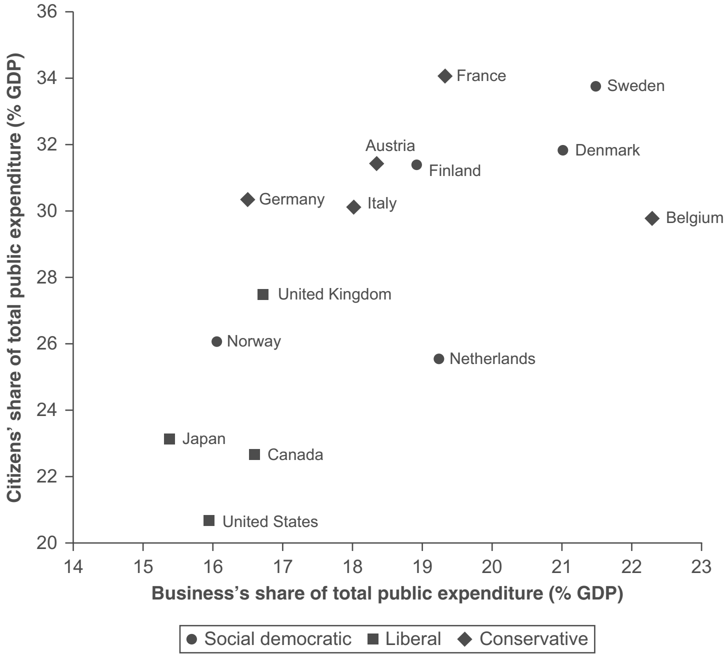


Figure 4.16 Shares of expenditure within the three worlds

more surprising is that both countries are also among the most generous in terms of corporate welfare. Denmark spends around a third as much on corporate welfare as it does on social welfare. Ireland spends fractionally less on corporate welfare as it spends on social welfare. Sweden, Denmark and Belgium have high levels of both social welfare and corporate welfare. Ireland, the US, Japan, Canada and New Zealand have relatively low levels of both social welfare and corporate welfare. Germany has relatively high levels of expenditure on social welfare and low levels of expenditure on corporate welfare. The Netherlands is a modest spender on both. There isn't a single country that could be classified as having low levels of social welfare and high levels of corporate welfare (see Figure 4.17). This reveals a clear relationship, which can be positive or negative, between social welfare and corporate welfare. It also again challenges the view that there is a clear trade-off between the two: higher levels of corporate

	Low corporate welfare	Moderate corporate welfare	High corporate welfare
Low social welfare	Ireland US Japan Canada New Zealand	Greece Japan	
Moderate social welfare	Norway UK	Netherlands	
High social welfare	Germany	Austria Finland	Sweden Denmark Belgium

Figure 4.17 Welfare matrix

welfare do not, by definition, lead to lower levels of social welfare and vice versa.

Social protection expenditure

The overall positive relationship revealed above between corporate and social welfare is illustrated more clearly if we focus solely on social protection expenditure. As already noted above, OECD SOXC social protection data were recoded in the analysis here in order to reflect the relative benefits to businesses and citizens. Figure 4.18 illustrates the results. This reveals a close and positive relationship between social and corporate welfare as we would expect, given that expenditure has been divided between the two. What is interesting here, then, is the outliers. Ireland, the US, the Netherlands and Denmark buck the overriding trends and devote more than would be expected to corporate welfare. At the other extreme, Greece, Hungary and Italy spend more on social welfare as a ratio of corporate welfare than we might expect.

The social–corporate welfare continuum

Figures 4.19 and 4.20 examine social protection expenditure in more detail and reclassify welfare expenditure along the social–corporate

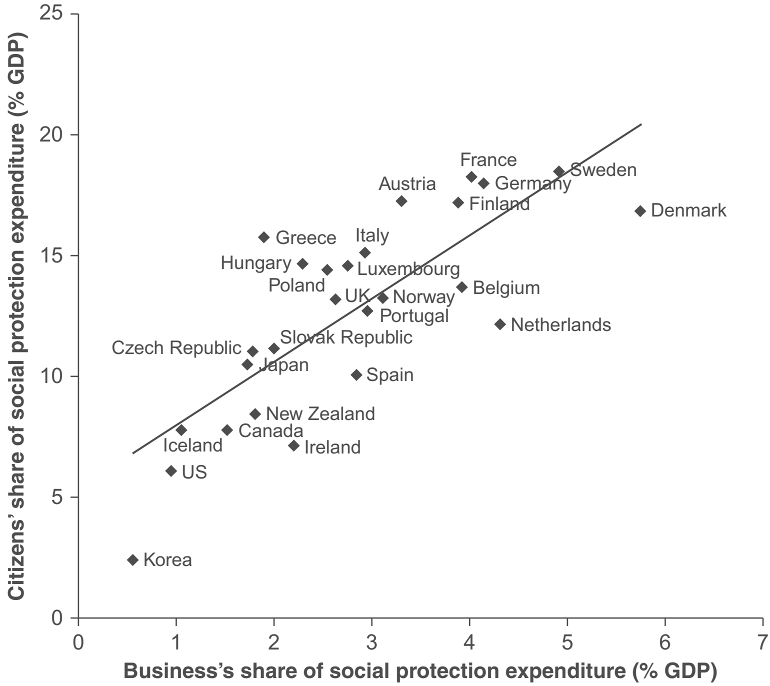


Figure 4.18 Shares of social protection expenditure

welfare continuum but this time social protection expenditure is further broken down into its broad functional categories as laid out in the SOXC database. Social welfare functions appear towards the bottom of the y-axis and corporate welfare towards the top. Again social welfare and corporate welfare occupy either end of the continuum. Towards the bottom of the chart are those benefits and services that most directly meet the needs of individual citizens and bring fewest benefits to corporations, including social care services and cash benefits (other than pensions). Such benefits may increase flexibility within employment markets for employers who want to shed labour and they may benefit some companies by boosting consumption levels during economic downturns, but they are most often geared more solidly towards individuals. Pensions

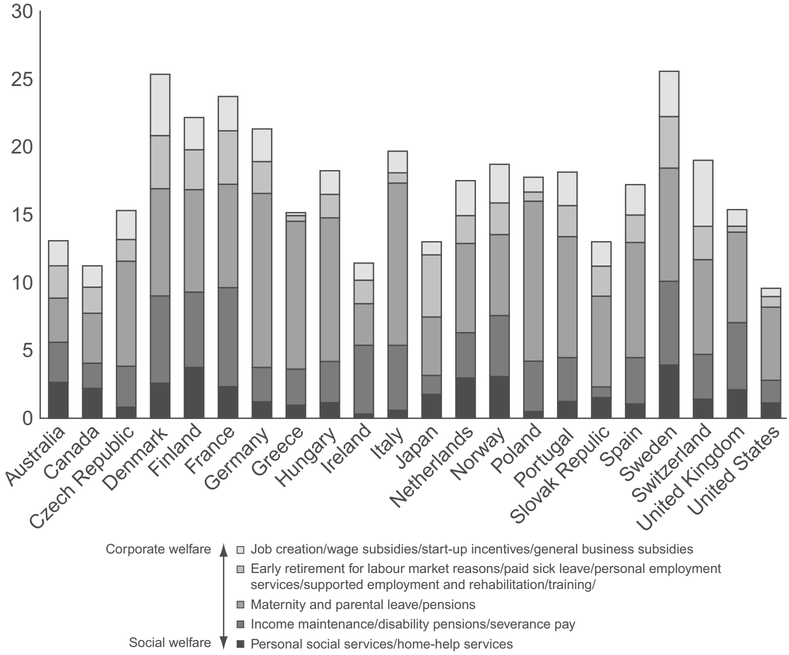


Figure 4.19 Social protection continuum (% GDP)

also bring key benefits to retired citizens, but they also bring clear benefits to corporations since they help employers to shed older workers. This time a further classification of 'social-corporate' welfare is included in the middle of the continuum. These benefits lie between the pure forms of social and corporate welfare and they have the characteristic of being most closely tied to employment. Such benefits include provision to cover early retirement, occupational injury and sickness provision, employment services and training provision. All of these benefits bring clear benefits for employees and employers. Towards the top of the continuum are those benefits that bring the clearest benefits to businesses, including wage subsidies and start-up incentives and incentive payments to create additional jobs.

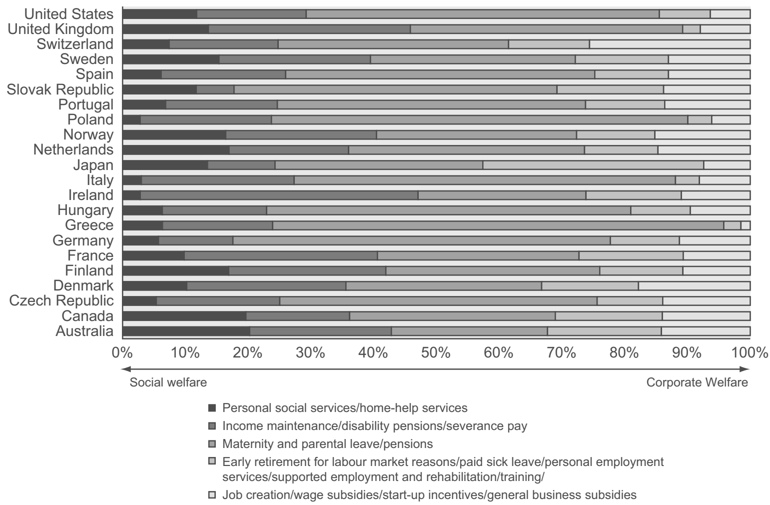


Figure 4.20 Social protection continuum (categories as percentage of social protection expenditure)

Further examination of the distribution of social protection by welfare function reveals more about the priorities of welfare expenditure within different welfare systems. Expenditure on the purest form of social welfare – personal social services and home help services – is highest as a percentage of GDP in Finland, the Netherlands, Norway and Sweden, followed by Australia and Japan. It is lowest in the Czech Republic, Ireland, Italy and Poland. Expenditure on job creation, wage and business subsidies, and start-up incentives is greater in Sweden, Denmark, Switzerland, Norway and the Netherlands. The employment-focused benefits (that lie in the middle of the continuum in Figure 4.19) are, in GDP terms, highest in Germany, Italy, Hungary and Poland. They are lowest in Australia, Canada, Ireland and Japan. If we shift the focus to expenditure as a proportion of overall social expenditure, a slightly different picture emerges. The proportion of social expenditure devoted to the personal social services is highest in Australia, Canada, Finland, Germany, the Netherlands and Norway. It is lowest in

Ireland, Italy, Poland and the Czech Republic. Corporate welfare, as a percentage of overall social protection expenditure, is highest in Denmark, Switzerland, Norway and the Netherlands. It is lowest in Japan, Poland, the US and UK. Viewed in this way, it is interesting to note that the relative proportion of social protection expenditure that goes to citizens is outweighed in some economies by the proportion of expenditure that goes to corporations.

These groupings of countries do not always follow the usual classifications of welfare systems, but some appear to fit with their customary 'type'. The liberal economies are confirmed as the ones that spend less on social protection; the social democratic economies as the ones that spend most. In terms of the direction of this spending, Sweden, Norway, Finland, Denmark and France come out as relatively generous across the board and as relatively balanced welfare systems. Canada and Australia appear to be less generous but again balanced in the direction of their spending. Germany, Spain and the US place most emphasis on work-connected provision, despite spending vastly different amounts overall.

Social welfare, corporate welfare and social–corporate welfare

Figure 4.21 presents the welfare continuum in a slightly different way, according to percentage shares of total expenditure. This time the share of total welfare of business and citizens is based on percentage shares of the whole. This provides the clearest picture of the corporate–social welfare continuum. Based on percentage shares of welfare, the US lies at one extreme of the continuum and Germany at the other. Sweden sits right in the middle. Because this classification is based on percentage shares, as opposed to overall levels of expenditure, it looks quite different from the previous figures, and the familiar classifications of most comparative welfare analysis (including Esping-Anderson's). Here we are classifying the distribution of welfare priorities rather than the relative generosity of state systems. The fact that the US is classified as a

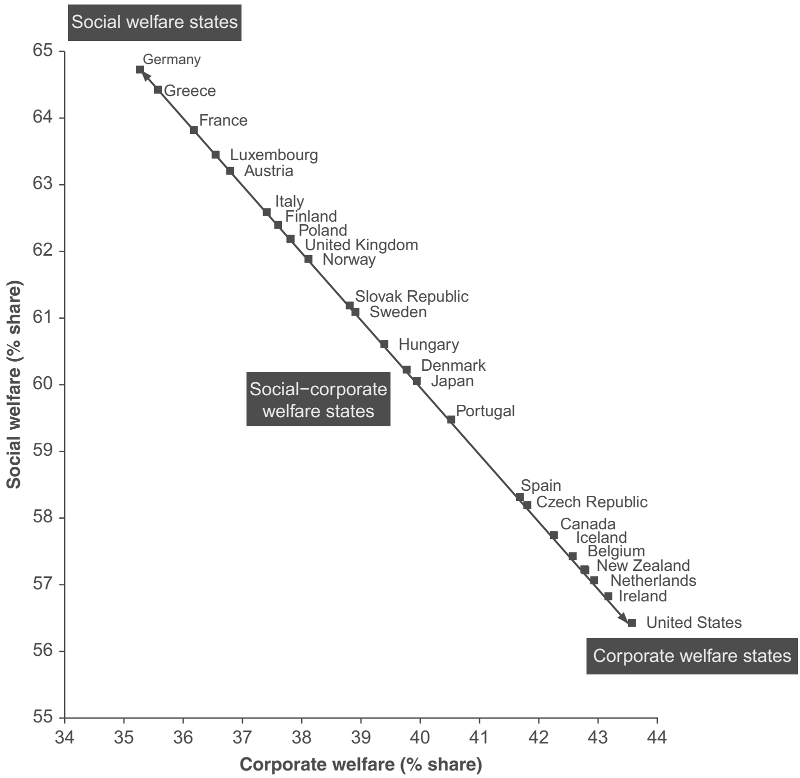


Figure 4.21 Social welfare, corporate welfare and social–corporate welfare

corporate welfare system isn't surprising, but the classification of Germany and France as social welfare systems and Sweden as a social–corporate welfare system may be more surprising to readers. This is simply an outcome of the fact that Germany spends more, as a percentage of overall public expenditure, on benefits and services directed towards individuals rather than corporations. Sweden is more evenly balanced in terms of the direction of its spending. Translating this into a system of classification, the US, Ireland, the Netherlands, New Zealand, Iceland and Canada could be described as corporate welfare states; Germany, Greece, France, Luxembourg and

Austria as social welfare states; and the UK, Norway, Slovak Republic, Sweden, Hungary, Denmark and Japan as social-corporate welfare states.

Conclusion

Although comparative data on corporate welfare are limited, some clear indications of the extent of state support for businesses are evident in international data. The data were examined for indications of different forms of provision along the corporate–social welfare continuum. Based on the analysis here, the following points are the most important to emerge:

(1) Corporations obtain cash and in-kind benefits from the state.
(2) Corporations obtain benefits from governments that operate to create more favourable business environments – as a result of lower regulations or costs – than exist elsewhere.
(3) Governments assist corporations through the provision of various tax benefits and tax concessions that effectively lower the 'official' rate of taxation that would otherwise apply to them.
(4) Evidence suggests that direct subsidies declined from the 1980s, although it is likely that these trends have been reversed by the post-2008 economic crisis.
(5) Businesses extract essential benefits from a range of state services that are ostensibly directed at individuals. The opposite is also true: citizens extract benefits from the provision of corporate welfare.
(6) In terms of the costs involved, businesses extract more from government in many nations than they actually contribute through the tax system.
(7) There is a weak, or absent, correlation between corporate and social welfare. There certainly isn't the trade-off between the two that we might expect. Countries with the highest levels of corporate welfare also have the highest levels of social welfare. Conversely, countries with relatively low levels of social welfare also tend to have low levels of corporate welfare.

Corporate welfare is thus an important element of all welfare systems, but it is more important in some systems than others. Some welfare states place greater emphasis on either corporate or social welfare and other welfare states are more balanced in terms of the emphasis placed on different forms of expenditure.

5
Examining Corporate Welfare Programmes

Chapter 4 focused on broad and largely general corporate welfare measures. This chapter examines, in more detail, state provision that benefits individual firms and specific sectors of the economy by, focusing on targeted corporate subsidies and direct company benefits. It draws primarily on WTO data on corporate subsidies that, although patchy, provides a useful glimpse into the range of state support provided to businesses in a number of countries. The first section presents an analysis of the WTO returns for 2006 of seven different countries – the US, the UK, Sweden, France, Germany, Canada and Japan – in order to examine the most important and costliest subsidies provided by these nations and to reveal the key sectors that benefit most from subsidies. The second section examines in detail the full WTO return for one country, the US. This provides fuller evidence of the range of subsidies that are distributed to different sectors. The third section builds on these and other data in order to describe in more detail the kinds of support measures provided by governments to different sectors. The final section looks beyond general business sectors by detailing specific forms of support that accrue to six case-study firms.

WTO subsidy declarations in seven countries

Taken together, the data presented in Table 5.1 represent a snapshot of a range of state support programmes offered to a wide range of businesses for different purposes. It will be recalled from Chapter 1, however, that WTO declarations of subsidies are small compared even

Table 5.1 Costliest sectoral support in various countries

Broad area	Programme		Objective(s)	Form	Value (Million US$)
Agriculture	Farmer's pension fund subsidy	Jap	Ensure the income security of self-employed farmers after their retirement; to secure an adequate number of farmers in Japan	Grant	1248
	Measures for milk and dairy products	Jap	Promote sound development of dairy farming and related industries; stabilise prices of milk and dairy products	Grant/ in-kind support (marketing)	228
	Measures for soybean	Jap	Maintain soybean production and stabilise farmers' income	Grant	211
Energy/ renewables	Renewables obligation order 2006	UK	Help the development of the Renewables Industry	Grant	249
	Reliefs from energy and CO_2 taxes for fuels used for heat production	Swe	Increase the competitiveness of companies involved in district heating programmes	Tax relief	193
	Energy tax relief on electricity for the manufacturing sector	Swe	Improve the competitiveness of the Swedish manufacturing sector	Tax relief	1768
	Liability guarantees for overseas exploration and development	Jap	Promote overseas oil and gas exploration and thereby ensure a stable supply; guarantee liabilities in connection with oil and gas exploration and development	Guarantees	698

	Loans for purchasing petroleum and liquid petroleum gas (LPG) for stockpiling	Jap	Ensure stockpiling of petroleum and LPG by private companies by extending loans to fund the purchase of petroleum and LPG	Loan	5193
	Manufacturing industry tax relief – CO_2 and energy taxes on fossil fuels	Swe	Improve the competitiveness of Swedish manufacturing sector (energy)	Tax relief	1768
	Regional programmes in support of commerce and industry	Ger	Help to finance investments in trade, industry and tourism to create and secure jobs and training places in assisted areas	Grant/ in-kind support	
Overseas development	Deduction of investments in French overseas departments and territories	Fra	Contribute to the economic development of French overseas departments and territories	Tax relief	742
	VAT deduction for certain exempted products	Fra	Promote economic development in overseas departments	Tax relief	280
	Commonwealth development corporation plc	UK	Maximise the creation and long-term growth of viable businesses in poorer developing countries through responsible investment and by mobilising private finance	Tax relief	249
Innovation/ investment	Industrial innovation fund	Fra	Encourage the development of large-scale, innovative, strategically or commercially important industrial projects	Grant/loan	483
	National agency for the promotion of research	Fra	Utilise scientific and technical research; promote innovation and technological progress	Grant/loan	

Table 5.1 (Continued)

Broad area	Programme		Objective(s)	Form	Value (Million US$)
	Technology partnership canada	Can	Provide funding support for strategic R&D and innovative projects	Grant	220
	National programme for civil aeronautical research and technology	Ger	Contribute to strengthening innovative research and technology	Grant	64
	Support for technological R&D	Swe	Provide aid for R&D and SMEs	Grant/loan	93
	Tax credit to promote research	Fra	Encourage better organisation of research activities	Tax relief	
Regional development	The Western diversification rogramme	Can	Promote economic development in western Canada; support innovation, promote a competitive and expanded business sector; develop sustainable communities	Grant	101
	Partnership support for regeneration	UK	Support private sector investment in regeneration projects that would not proceed without public sector support	Grant/loan	160
	The business and regional growth programme.	Can	Help enterprises become more competitive and innovative; support knowledge transfer; create the right conditions to attract foreign investment	Grant/loan	80
	NI Viridian growth fund	UK	Address gaps in venture capital and loan funding for small enterprises based in Northern Ireland; expand SME sector; promote enterprise and reduce grant dependency	Grants	654

	Regional selective assistance	UK	Assist economic development in areas of special hardship	Grant/ guarantees/ shares	161
	Pulp mill stendal	Ger	Enable structurally weak regions to keep pace with general economic development by offsetting disadvantages of location and reducing regional development differentials	Grants/ guarantees	378
	Regional economic support programme	Ger	Improve the regional economic structure and support SMEs	Grant	1853
Small and specific sector support	Competition aid for german shipyards (Wettbewerbshilfe)	Ger	Provide financial support (grant) towards production costs where they are permissible under the relevant EU directive on shipbuilding subsidies	Grant	59
	R&D tax credit	UK	Incentivise SMEs to take up and/or increase R&D activities	Tax relief	450
	ACOA business development programme	Can	Foster entrepreneurship; increase new business formations; improve the competitiveness of SMEs	Grant/loan	80
	Canada small business financing programme	Can	Share risk with private lenders and encourage lending for the establishment, expansion, modernisation and improvement of small business enterprises	Loan	86
Transport subsidies	Regional transport grant	Swe	Provide regional aid to designated areas to compensate for high transport costs; put companies on a more equal footing when competing with those situated closer to the large markets	Grants	53

with other international aggregate estimates (themselves representing only a small estimate of total state support). The value of WTO declarations is that they include details of specific provision given to individual firms and sectors. In addition, it provides useful insights into the reasons why countries provide support. Such detail is missing from other international data. Immediately apparent from this is the dominance of a number of key sectors and forms of expenditure: relating in particular to new investment, R&D, agriculture and energy. The language of support is also interesting – in most instances, subsidies are justified on the grounds that they protect and support general welfare (e.g. in terms of the environment), but at their heart is an intention to boost national industries within international markets. It is also important to remember that while a great deal of state support is aimed at business in general, subsidies tend to support individual corporations. Thus, subsidies constitute by far the largest cash payments provided to any single recipient of state benefits. In many instances, payments are provided to corporations in order to respond to the particular and one-off needs of individual companies but, in some cases, government support constitutes a regular, unlimited and unconditional contribution to the incomes and profits of certain businesses.

Turning to the specific subsidies encapsulated in the data in Table 5.1, most are in familiar areas but others are more surprising: the Japanese subsidy to encourage firms to stockpile fuel; Swedish subsidies to offset the high costs of energy; and US subsidies to jewellery makers and tax reliefs to allow tobacco company workers to purchase subsidised tobacco products. The data gives some idea of just how wide-ranging state support is. Governments continue to provide generous support to private companies in order to aid, protect and compensate them for market problems, risks and failures. The majority of the provision to companies represents real costs to governments and is non-refundable. Subsidies to tackle regional development – provided to overcome higher financial risks and higher transport costs, and to offer a financial incentive to firms choosing to locate to more economically depressed areas – feature among the most generous subsidies offered by various governments. Here there is some variation in the priority areas of different countries. Agricultural subsidies are provided by most, if not all, governments, but they do not feature heavily in all WTO returns (details of EU subsidies are actually disclosed by the European Commission (EC)).

Several countries prioritise research and technology in their subsidy programmes. Through such subsidies, governments aim to make up for gaps in private funding, caused by the higher risks associated with unproven product advancement and high upfront costs. They are also keen to promote new markets that might provide a competitive advantage to their nationally based corporations. Support is used to provide incentives to invest in R&D, to underwrite private investment risks, and to provide public financing where private loans may be difficult to secure or may carry too high a risk (typically state loans for such purposes only have to be paid back if the R&D results in financial gains for the company). The data here also capture the increasing tendency for governments to provide subsidies to boost the renewable and alternative energy sectors. The full WTO returns detail a range of programmes that are provided in this area that are justified as contributing to a reduction in carbon emissions, offsetting the higher costs imposed by the climate-change levy, or facilitating the expansion of new renewable technologies. In some cases, the emphasis on subsidies in the name of environmental protection is undermined by the fact that governments also often provide subsidies to companies that continue to harm the environment. In the case of the US, for example, subsidies justified on the basis of improved environmental outcomes, such as boosting the development of renewables, are undermined by subsidies to the fossil-fuel industry that are designed to reduce their costs and help them to maintain their price competitiveness with the subsidised alternative fuels. Lastly, governments provide subsidies in order to improve the competitiveness of key business sectors. Because this assistance does not target specific companies, it may be deemed not to contravene general rules on international subsidies, but it does, on the face of it, appear to fly in the face of attempts to boost global trade.

In terms of the specific subsidies offered by governments in various countries, agricultural subsidies are most generously provided to farmers in Japan. In addition to agriculture, Japan focuses its biggest forms of assistance on boosting the oil and gas industry, both in its exploration activities and in the stockpiling of supplies. In Sweden, by contrast, three of the most expensive subsidies are aimed at boosting the competitiveness of specific sectors. In the remaining two, Sweden offers R&D subsidies and provision to firms that aim to compensate for otherwise high costs (primarily transport costs). Tax relief, rather than grants, appears to be the favoured method of distributing subsidies in Sweden.

In the UK, regional development dominates the largest forms of provision. Grants and tax relief are utilised to boost industrial development in depressed regions of the UK and elsewhere. Like Japan, the UK also promotes R&D activities heavily, especially in relation to the renewable energy industry and the small business sectors. Canada similarly focuses its main support efforts on regional development, R&D and supporting small- and medium-sized enterprises (SMEs). Germany spreads its support between regional development, R&D support and specific industries, including shipbuilding and SMEs. The US is discussed in more detail below, but it is worth noting that its largest funding goes to agriculture. Large subsidies are also set aside for responding to the damage caused by natural disasters (e.g. hurricanes) and the regeneration of New York's trading area following the September 11, 2001 terrorist attacks. The other two subsidies within the top five are targeted at the alternative and renewable fuels sectors with a particular focus on weaning the US off oil import dependence as a national security priority (notwithstanding the contradictory subsidies to the fossil-fuel industry highlighted above).

Subsidies in the US

This next sector seeks to reveal more about the range of subsidy measures provided to private companies by focusing on the complete WTO declaration issued by the US. Table 5.2 details full range of support provided by the US Federal government to its private businesses. Immediately apparent when examining national justifications for subsidies at this level is the clear relationship between economic and political priorities. A key goal of several corporate subsidies in the US, for instance, is to reduce the country's dependence on imports from some of its 'less favoured' trading partners. National security is a stated justification for subsidies in the areas of agriculture and the oil and gas industries. At the same time, the number of subsidies aimed at responding to environmental concerns also feature prominently (at a time when the official line of the US government was that climate change was an exaggerated but natural phenomenon, beyond the responsibility of governments and citizens). This apparent contradiction might cynically be explained by

Table 5.2 Federal corporate support in the US

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
Agriculture/ fisheries	Fisheries finance program	Provide fixed-rate financing to the commercial fishing sector for the construction, reconstruction, replacement and purchase of fishing vessels	Loans	245 (2003)
Agriculture/ fisheries	Agriculture income support and marketing assistance for covered commodities	Stabilise, support and protect farm income and prices; help ensure adequate supplies of quality food, feed and fibre; assist in the orderly marketing of farm commodities	Grants, in-kind assistance	18,355
Agriculture/ fisheries	Capital gains treatment of certain agricultural income	Ensure that when farmland is sold, any immature, unharvested crops growing on the land are treated for tax purposes as part of the land and not as personal property ready for sale to customers (thus taxed at a lower rate of capital gains rather than income tax)	Income tax concession	880
Agriculture/ fisheries	Expensing of certain capital outlays related to agriculture	Promote soil and water conservation	Income tax concession. Deduction of certain expenditures for fertiliser and other materials used to	130 (2005)

Table 5.2 (Continued)

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
			enrich or condition farmland, as well as for soil and water conservation measures	
Agriculture/ fisheries	Expensing of multi-period livestock and crop production costs	Ease record-keeping for small farm businesses	Income tax concession. The production of livestock and crops with a production period of two years or less is exempted from the uniform capitalisation rules	70 (2005)
Agriculture/ fisheries	Sea grant	Provide grants to selected universities to carry out research that addresses many aspects of the long-term economic development, environmental stewardship and responsible use of marine and inland resources, including fish and shellfish	Direct federal grants are normally paid to an academic institution or other organisation	54.7
Agriculture/ fisheries	Treatment of loans forgiven solvent farmers as if insolvent	Address certain consequences of farm credit crises; write off tax liabilities on debt in the event of insolvency	Income tax concession	20

Agriculture/ fisheries	Columbia river hatcheries	Conserve fishery resources in the Columbia River Basin	Operating grants to Columbia River Fisheries Development Program salmon hatcheries	16.8
Agriculture/ fisheries	Saltonstall-kennedy grant program: fisheries research and development	Support effective conservation and management of US fisheries and fisheries communities by increasing the biological, economic and social information needed for sound management	Grants awarded annually on a competitive basis	5
Agriculture/ fisheries	The dairy export incentive program	Facilitate greater export volumes in the dairy industry	Cash grants and other support	2,685 (2004)
Agriculture/ fisheries	Exemption from excise tax for tobacco products supplied to tobacco employees	Permit producers of tobacco products to supply their workers with free cigarettes and other tobacco products	Exemption from otherwise applicable excise tax	
Commerce	The export credit programs of the export-import bank of the United States	Provide credits, guarantees and insurance, including for commercial and political risks, to support exports of US goods and services at rates and on terms that are competitive with government-supported rates and terms available from competitor countries. Inasmuch as other official authorities offer official financing in support of exports from their countries, Ex-Im Bank has offered similar financing	Credits, guarantees and insurance	?

Table 5.2 (Continued)

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
Energy	Alternative fuel production credit	Provide incentives for the private sector to increase the development of alternative domestic energy resources because of concern over oil import dependence and national security	Income tax concession	2,980
Energy	Alcohol fuel credit	Encourage the substitution of alcohol fuels produced from renewable sources for gasoline and diesel fuel	Tax concessions and direct payments	2,620
Energy	Renewable energy resources	Develop renewable energy technologies, accelerate acceptance and use of renewable energy technologies and improve the overall economic, energy security and environmental health of the US through the development of clean, competitive power technologies	Grants, cooperative agreements, cooperative R&D agreements	1,174.8
Energy	Excess of percentage over cost depletion for oil, gas and other fuels	Stimulate the supply of oil and gas, compensate producers for the high risks of prospecting and relieve the tax burdens of small-scale producers	Income tax concession	760
Energy	Fossil energy research and development	Ensure that economic benefits from moderately priced fossil fuels and a strong domestic industry, which creates domestic		592

		jobs, are compatible with the expectation for exceptional environmental quality and reduced energy security risks		
Energy	Expensing of exploration and development costs for oil, gas and other fuels	Encourage the development of domestic oil, gas and coal resources	Income tax concession. Fuel mineral producers are permitted accelerated deductions from taxable income	680
Energy	Enhanced oil recovery credit	Increase the domestic supply of oil and enhance the energy security of the US	Income tax concession granted to producers and royalty holders applying approved tertiary petroleum recovery methods	50
Energy	Credits for electricity production from renewable resources and for refined and Indian coal	Encourage the development and utilisation of electricity generating technologies that use specified renewable energy resources, as opposed to conventional fossil fuels, and encourage the production of low-emission and Indian coal	Taxpayers are allowed a 1.5 cent credit (adjusted for inflation) per kilowatt hour for electricity produced from wind, closed-loop biomass, open-loop biomass, solar energy, small irrigation power, municipal solid waste, qualified hydropower, marine and hydrokinetic renewable energy and poultry waste	460
Energy	Capital gains treatment of royalties on coal	Encourage the development of the domestic coal industry	Income tax concession	160

Table 5.2 (Continued)

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
Energy	Energy conservation programs – building technologies	Develop, promote and integrate energy technologies and practices that make buildings more efficient, productive and affordable	Grants, cooperative agreements and other forms of collaboration	69.3
Energy	Deduction for investment in increased refinery capacity	Encourage investments in increased refinery capacity	Refiners are allowed to deduct 50 per cent of costs incurred from income tax liabilities	10
Energy	Amortisation of geological and geophysical expenditures	Encourage oil and gas exploration	Allows businesses to amortise costs incurred in exploring for oil and gas	10
Energy/ environment	Energy conservation programs – transportation sector	Support development and use of advanced vehicle technologies and fuels that reduce demand for petroleum, decrease emissions of criteria air pollutants and greenhouse gases, and enable the US transportation industry to sustain a strong, competitive position in domestic and world markets		182.1
Energy/ environment	Biodiesel credit	Encourage the substitution of biodiesel and renewable diesel for diesel fuel	Tax credit or payment for biodiesel or renewable diesel used as a fuel equal to $1.00	90

			per gallon. In addition, small producers of biodiesel are eligible for a 10 cent per gallon income tax credit. The credit is included in a taxpayer's income	
Energy/ environment	Credit for production of low-Sulphur diesel and deduction for investment in low-sulphur diesel refineries	Assist refiners in complying with EPA low-sulphur diesel requirements	Small refiners are allowed to deduct 75 per cent of costs incurred and allowed a credit of 5 cents per gallon of low-sulphur diesel produced	10
Energy/ industry	Energy conservation – industry sector	Improve the energy efficiency, environmental performance and productivity of energy-intensive industries by developing and delivering advanced science and technology options	Grants and cooperative agreements	56.9
Energy/ renewables	Credit for clean renewable energy bonds	Encourage the development and utilisation of renewable energy resources	Tax credit reduces federal income taxes for lenders, providing funds to finance the construction of facilities producing qualifying electricity or coal	20
Energy/ technology	New technology credit: solar, geothermal, fuel cell, and microturbine property	Reduce US consumption of oil and natural gas by encouraging the commercialisation of renewable energy technologies, and enhance national security	Income tax concession	0.7

Table 5.2 (Continued)

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
Energy/ technology	Credits for electricity production from advanced nuclear power facilities	Encourage the development of advanced nuclear power facilities	The credit reduces federal income taxes for taxpayers producing qualifying electricity	–
Energy/ technology	Credits for investment in advanced coal facilities and advanced gasification facilities	Encourage the development of advanced technology facilities for generating electricity from coal and synthesis gas	Taxpayers are allowed investment credits of 20 per cent for investments in gasification facilities and 15 per cent for investments in other advanced coal facilities	–
Forestry	Expensing of multiperiod timber growing costs	Compensate timber supplies following changes in the Tax Reform Act of 1986, which introduced new capitalisation rules	Income tax concession. Timber owners can expense, rather than capitalise, certain deductions from taxable income	290
Forestry	Capital gains treatment of certain timber income	Encourage domestic timber production	The capital gains tax treatment is authorised under sections 1231 and 631 of the Internal Revenue Code. The provision was originally enacted in 1943	160
Forestry	Investment credit and seven-year	Promote reforestation on private timberlands	A special 10 per cent investment tax credit is allowed for up to $10,000	10

	Amortisation for reforestation expenditures	invested annually in clearing land and planting trees for the ultimate production of timber		
Health	The office of isotopes for medicine and science	Maintain the infrastructure required to support the national need for a reliable supply of isotope products, services and related technology used in medicine, homeland security applications and scientific research		14.3
Industry	Emergency steel loan guarantee program	Assist steel companies affected by the import crisis in 1998–2002 (the programme guaranteed loans up to 95 per cent of the principal amount of loans provided by private lenders up to $250 million per company)	Loan guarantees. It last received an application for a guarantee for a $250 million loan in September 2002, which was approved in March 2003	–
International trade	The export enhancement program		Cash bonuses paid to participating agricultural exporters	–
Manufacturing	The textile/clothing technology corporation program	Stimulate economic growth in the US textile and apparel sector through research	Grants	3.4

Table 5.2 (Continued)

Sector(s)	Programme	Objectives	Form of support	Cost (2006) US$ millions
Manufacturing/ environment	Energy efficient appliance credit	Encourage the manufacture of energy-efficient appliances	Tax credits to manufacturers for the production of energy efficient dishwashers, washing machines and refrigerators (limited to $75 million per company)	120
R&D	Orphan drug tax credit	Encourage research on drugs for rare diseases or conditions	A 50 per cent tax credit for qualified clinical testing expenses incurred in testing certain drugs for rare diseases or conditions	230
Raw materials	Expensing of exploration and development costs for non-fuel minerals	Encourage the development of the domestic non-fuel mineral industry	Permit certain capital outlays associated with the exploration and development of non-fuel minerals to be expensed rather than depreciated over the life of the asset	680
Raw materials	Capital gains treatment of iron ore	Encourage the mining of domestic iron ore	Certain iron ore and timber sold under a royalty contract may be treated as capital gains for income tax purposes. Income tax rates for individuals on ordinary income ranged from 10 per cent to 35 per cent in 2005 and 2006. For individual taxpayers, long-term capital gains are taxed separately from other income, generally at 5 per cent and 15 per cent rates	10

Raw materials	Special rules for mining reclamation reserves	Encourage reclamation and prevent adverse economic effects on mining firms that might result from the application of general tax rules regarding deduction for future costs	Taxpayers are permitted to establish reserves to cover certain costs of mine reclamation and of closing solid waste disposal properties. Net increases in reserves may be taken as a deduction against taxable income	10
Raw materials	Excess of percentage over cost depletion for non-fuel minerals	Encourage the development of the domestic non-fuel mineral industry	Income tax concession. Non-fuel mineral extractors are permitted deductions from taxable income for depletable expenditures equal to the larger of percentage or cost depletion	450
Regional develop-ment	The insular possessions watch and jewellery programs	Encourage watch and jewellery production and thereby stimulate development in the US Virgin Islands (and elsewhere)	Exemption from tax duties	319
Regional develop-ment	Empowerment zones, enterprise communities and renewal communities	Encourage revitalisation of distressed areas (nominated areas must meet population, distress, size and poverty rate criteria in order to be eligible, ensuring that assistance is targeted to areas experiencing high levels of economic distress)	Tax credits/incentives. The employment tax credit and an additional $35,000 per year of expenses are provided when the recipient business completes its tax return	1210

Table 5.2 (Continued)

Sector(s)	**Programme**	**Objectives**	**Form of support**	**Cost (2006) US$ millions**
Regional development	New markets tax credit	Encourage capital investment in businesses located in economically distressed areas	Income tax concession	590
Regional development	Gulf opportunity zone	Encourage the reconstruction of the area affected by hurricanes Katrina, Wilma and Rita	Tax allowances for companies within the Gulf Opportunity Zone	4000
Regional development	New York liberty zone	Encourage the redevelopment of the area surrounding the World Trade Center in New York City in the aftermath of the terrorist attack on September 11, 2001	Income tax concession	1260

the fact that the environment (and security) provides some justification for increased subsidies where it might otherwise have been more difficult to explain these measures as wholly compatible with a global economy. The importance of certain sectors, including food, certain minerals and energy, is another explanation for the continued heavy state interventions in these sectors but, in these and other areas, subsidies are so prevalent in other nations that governments often feel they have to take similar measures in order to protect their own industries from distorted international markets. The ability to overcome such problems was one of the justifications for the establishment of the WTO, of course, and the US has been an especially keen advocate of WTO efforts to eradicate subsidies in other nations. Given this, it is perhaps surprising to see the existence of so many forms of subsidy in the US that so clearly undermine this principle.

US federal government data, representing only the tip of the iceberg since they exclude state-level support, nevertheless reveal something of the range and extent of state support programmes on offer to businesses within states. Farmers are provided with income-support measures, given help to ensure the raw materials of their livelihoods are conserved and provided with additional incentives to increase their exports. Universities are provided with additional research grants to help to research the long-term development and sustainability of the fishing industry. Exporters more generally are provided with subsidised state insurance against the risks associated with foreign trade. The oil industry is provided with additional support in order to ensure US production is increased and producers are compensated for the high costs of oil exploration. There are also subsidies and grants available to assist companies in complying with cleaner energy regulations. At the same time, alternative fuel producers (often the same companies) are provided with additional assistance to promote research and production capacity and to reduce dependence on fossil fuels. Electricity producers are also given assistance to promote renewables. Meanwhile, the forestry industry is provided with additional financial support to encourage greater production and reforestation. The steel and textile industries have been provided with additional help to protect them against external shocks and declining demand. The pharmaceutical industry is provided with assistance to develop new drugs. And general support is provided to protect against natural and man-made disasters. Overall, these data suggest that markets are far from 'free' even within the most ostensibly liberal of economies. Indeed, the extent of the subsidies on offer in the US to protect even those industries that have been allowed to fail in other nations is astonishing.

As already noted in previous chapters, it is clear that, in some areas, governments feel locked in to providing state support since other governments make similar provision. This is the case with support for distinct sectors, including shipbuilding, or for subsidies in general areas, such as, export markets. Although this would appear to again run counter to the idea of global trade, the US's Export-Import (Ex-Im) Bank exists, for example, to 'support exports of US goods and services'. It is interesting to note that the greatest beneficiary of this funding over recent years has been Boeing, which, with its European rival Airbus, has been embroiled in a long-running trade dispute between the US and the EU (see below).

Also clear from these data is that governments intervene heavily to boost the positions of small businesses, in part because this sector accounts for a large amount of total GDP in many economies, and partly because, as we saw above, small business subsidies are less likely to be scrutinised and fall foul of international trade rules than subsidies directed at larger companies. Small businesses in particular face cashflow problems resulting from delayed payments and/or poor credit levels and the finance industry faces higher risks from small business failures. Government intervention is therefore important in this sector to guarantee such risks, thus simultaneously helping to tackle cashflows and protect the financial position of lenders.

This range of federal support measures is a good illustration of the various ways in which governments support various sectors and firms within their economies. Even this is a drop in the subsidies ocean, however. Table 5.2 does not include subsidies from the individual states of the US and, even if it did, it would still be a grave underestimate (for reasons that were highlighted in Chapter 3).

Sector support

The following sections bring together key data from the WTO and elsewhere in order to reveal more about the range of subsidies provided to particular sectors of the economy. Various forms of support are discussed here as they apply to some key industries. We begin with one of the most heavily dependent sectors: agriculture.

Agriculture, forestry and fisheries

Agricultural subsidies have so far eluded various international attempts to comprehensively reduce or even ban them altogether. They are among the most controversial and expensive subsidies since they most directly impact on the development of trade within developing economies. Not surprisingly, then, agricultural subsidies feature heavily in the WTO returns for Japan and the US (as already noted, agricultural subsidies are declared by the EC for EU countries). Farming subsidies are justified by governments for two key reasons. First, food production occupies a uniquely central place in human need fulfilment and is thus too risky to leave to free markets. Second, and following on from this, governments feel the need to increase their own subsidies to agriculture in order to protect the incomes of their own farmers from heavily subsidised imports. Thus, despite international commitments to reduce farm subsidies, the size and importance of agricultural subsidies continue. According to OECD data, over 15 per cent of the value of gross farm receipts in the US is represented by subsidies. The equivalent figure for the EU as a whole is twice as much as this and for Japan the equivalent figure is 50 per cent.[1]

This is clear from the US's WTO return. As evidenced in Table 5.2, the federal government had in place 11 separate measures designed to assist agriculture and fisheries in 2007, worth in excess of $20 billion. Indeed, support for these sectors was the most costly of all forms of declared support. Support is provided in the form of loans, grants and tax concessions and is provided for a wide range of purposes: assisting with the purchase costs of fishing boats; guaranteeing incomes and prices; promoting water conservation; supporting conservation research; and, perhaps most esoteric, contributing to the costs of record-keeping for small farmers and reducing taxation on crops sold alongside farmland.

Despite the huge levels of assistance they are given, critics argue that subsidies end up benefiting the most wealthy and most powerful farmers, rather than the most needy with the lowest incomes (CATO, 2007: 7). The CATO Institute argues that, in the US, 66 per cent of all farming subsidies have been estimated to accrue to only 10 per cent of the wealthiest farmers. Zepezauer puts it starkly:

> Agricultural subsidies . . . go mostly to relatively few states, for relatively few crops, to benefit relatively few farmers.
>
> (Zepezauer, 2004)

One key problem here is that large agribusiness is able to lobby effectively for sustained or increased subsidies, and this either reinforces arguments in other nations for increased subsidies or acts as a brake on their own efforts to reduce subsidies for fear of reducing the competitiveness of their own farmers. Governments often lease land to farmers at below-market rates to the extent that the costs of managing the land are often far in excess of the value of the rents charged (Zepezauer, 2004, p. 85).

The timber industry also features in the data, although the subsidies listed here are relatively small compared with the cost of road programmes that are necessary to reach deep into forests in order to be able to exploit them. This is incredibly significant in major wood-producing nations. In the US, for instance, the Forest Service, a federal agency, is responsible for more miles of road than the Department of Transportation (Zepezauer, 2004, p. 122).

Fuel and energy

The development of alternative fuels receives the next largest subsidies after agriculture from the US federal government. Over $5 billion was paid to corporations to support the production of alternatives to oil and to support the development of renewable energies. Money was also devoted to projects to boost acceptance of low-carbon alternatives to oil-based fuel. At the same time, over $1.5 billion was devoted to encouraging domestic oil, gas and coal exploration and production in the US.

Investment in ‘renewables’ is one of the more ‘legitimate’ and justified areas of financial support to industry. Investment in new, cleaner energy is considered to bring a whole range of national and global benefits, but R&D, as well as new investment, is unlikely without government assistance, since any energy produced using cleaner technologies is, for the foreseeable future, likely to be more financially expensive. On this basis alone, therefore, subsidies are considered to be justified and important. Another reason governments are keen to invest in clean energy technologies is that such investment promises to bring competitive advantage to any firm ahead of the international field in this area. The use of state subsidies in here is not quite the win-win investment that it first appears to be. Again, as in other sectors, there are elite interests involved in the renewable energy sector and often the same interests simultaneously occupy the clean and 'dirty' energy sectors. Moreover, subsidies can lead to further knock-on problems or issues in other industries; for example, by boosting fuel crops at the expense of food crops. The fuel crop industry, particularly in the US and in some developing countries, has also given a boost to genetically modified crops.

Drawing on evidence from outside the US, research undertaken by the New Economics Foundation in the UK (NEF, 2004) found that the British government provided around £40 million to support research in British universities that directly benefited the oil industry; industry contributed a further £67 million in supporting or commissioning specific research in state universities. Given that it takes place in publicly funded institutions, this £67 million is unlikely to meet the true costs of the actual research undertaken, effectively operating as a further subsidy for R&D for private industry. Bioenergy producers also attract heavy subsidies. In addition to its dependence on large direct subsidies, the nuclear industry would also be untenable without government support to limit the liabilities of companies in the event of accidents, to subsidise investment in new plant, and to manage the costs of decommissioning plant and reprocessing waste.

Manufacturing

In addition to benefiting from regional development monies and export-support measures, industry attracts other forms of government support. The US federal government provides financing for research in the apparel industry to boost growth in the sector, as well as additional financing to increase the production of more efficient domestic appliances. This latter funding is justified on environmental grounds, but it has the additional potential benefit of increasing the competitiveness of US goods at home and abroad.

The US federal government declares support for shipbuilding, the steel industry, and watch and jewellery manufacturers in its

WTO returns. The support for the steel industry was an emergency measure to assist US steel manufacturers to respond to global market pressures between 1998 and 2002. Such measures illustrate the lengths to which governments will go to protect their domestic companies while simultaneously espousing global trade liberalisation. There is, of course, a structural rationale for this: increased corporate sales results in increased production, jobs and tax revenues. Although such subsidies appear to be at odds with international regulations, including WTO rules, many governments provide support to their own companies to boost domestic markets and foreign exports. The evidence presented here reveals that all the countries detailed here have programmes to boost the competitiveness of one or more sectors, but the US appears to make greater use of such subsidies than other countries. As already noted, the largest US subsidies are justified on the basis that they reduce dependence on foreign imports in the areas of agriculture and oil.

Domestic producers also benefit from non-financial support that would not be accounted for anywhere as corporate welfare: state-sponsored marketing and sales. The defence industry in particular is replete with examples of government ministers, prime ministers, presidents and monarchs effectively lobbying foreign governments in order to generate sales. Tony Blair was personally embroiled in at least two controversial arms deals during his premiership: in helping to negotiate the sale of Hawk jets to India in 2003 and the sale of BAE System's Eurofighter aircraft to Saudi Arabia in 2006 (Guardian 2002; 2007). The Spanish Prime Minister, Jose Luis Zapatero, was also accused of vetoing the awarding of a defence contract to the British firm Rolls-Royce in 2007 for political reasons. The contract was instead given to the US firm General Electric (GE) following a decision of the US government 'to advocate on behalf of GE'. The decision to award the contract to GE came despite widespread expectations at the time, acknowledged by the US Ambassador to Spain in the leaked document, that a decision had already been made to award the contract to Rolls-Royce[2] (BBC News). Such moves are not, of course, widely considered to constitute corporate welfare, but, as this analysis has repeatedly sought to emphasise, they represent direct personal as well as financial investments on the part of government with the aim of strengthening and/or protecting private businesses.

Subsidies are also provided to support new technologies in industry. Public investment in advanced technology is clearly important to future innovation and growth within nations, but there are real barriers to private sector investment that may only go ahead with government funding and/or guarantees. Often, high levels of upfront financing are needed to invest in necessary equipment or to attract individuals with the necessary skills. In response, various governments have put in place a number of subsidies, including grants (which may only be repayable if any given initiative is a ccommercial success), match-funding and offering guarantees to private sector investment that cover the costs of failed projects.

The risks for government are three-fold: (1) private sector financing may be effectively substituted by public sector support; (2) the public sector takes on all the risks and the private sector appropriates most or all of the benefits; (3) large corporate interests that could otherwise fund projects themselves may appropriate public sector resources that could otherwise go to smaller-scale and blue-skies research that may be the most difficult to fund. Research undertaken by the CATO Institute, for instance, cites work carried out by the US government's accounting office in 1996, which found that 63 per cent of all companies that had applied to the government for subsidies to invest in high-tech work did not attempt to acquire financing from alternative sources, leading the CATO Institute to ask:

> Are the projects that the government funds examples of promising but overlooked entrepreneurial initiatives? Or are they mostly examples of how savvy businesses can get the federal government to underwrite their products' R&D?
>
> (CATO Institute, 2008)

The CATO Institute also points out that the same large companies (IBM, GE, Caterpillar, Motorola, Ford, Du Pont, General Motor, Monsanto, etc) tend to dominate such funding allocations. Moreover, in large firms in particular, CATO argues, public investments do not add to private investments: they offset them. In other words, public sector monies simply replace the investment of private companies in their own R&D, with the result that public support ultimately does little more than add to the profit margins of firms.

The automobile industry is a major employer in many nations and, as such, has benefited over the years from a whole range of corporate welfare benefits, including tax breaks, state-funded training facilities, investment subsidies, grants and cheap loans. Most recently, in response to the economic crisis, the motor industry benefited from an internationally coordinated effort to boost car sales through the use of financial incentives to consumers. During late 2008 it looked as if General Motors and Chrysler were at serious risk of collapsing entirely and the US led the way in introducing moves to boost the motor industry, including major economic guarantees and restructuring (see Chapter 6).

Transport

The transport sector is, like agriculture, core to every economy, central to the welfare of both businesses and individuals. It isn't listed as a major recipient of subsidies in WTO data, primarily because it is within a non-competitive industry and is therefore irrelevant to international declarations (see Chapter 3). However, transport, like other sectors such as postal systems, water and the utilities, tends to exist as private markets only where they are heavily regulated and financially supported by governments. Such services are highly susceptible to cherry-picking of the profitable sections by the private sector, leaving less profitable sections for the state to provide. However, these sectors generally require national coverage if they are to continue to survive. To take one example, trains can only operate successfully if they are part of a larger network and there are good links between national and local services and complementary bus services. A good rail system therefore requires regulators to ensure, in the interests of the sector as a whole, that operators run services in less profitable, lower-demand rural areas as well as more profitable, higher-demand urban centres. The number of operators also has to be controlled in high-demand areas since there is a limit to the number of trains that might operate on any given track. Such problems lead governments in most countries to heavily subsidise their railways. Other problems, inherent in a range of other industries, lead governments to intervene similarly, and such intervention is heaviest where the perceived importance of the service or commodity, to society more generally, is greatest.

The airline industry also benefits in various ways from government support. To begin with, governments often pay fully, or in part, for the infrastructure costs of developing airports. They typically also subsidise air traffic-control systems (Zepezauer, 2002, p. 112). In addition, aviation fuel is tax exempt and airlines are also able to capitalise on the sale of tax-exempted 'duty-free' products. This is on top of the subsidies paid to the manufacturers of aircraft, which amounts to millions of dollars per year in the EU and the US. Of course, both the US and the EU have rigorously denied this, and subsidies to Boeing and Airbus are not declared in international subsidy declarations (see below).

Finance and high-street retailers

Finance and high-street retailers are often not included among the list of benefactors of corporate welfare, but research has emerged in recent years that has exposed the extent to which this sector is dependent on governments for various forms of support. The retail sector has been able to make full use of a range of in-work benefits introduced by governments to try to increase work incentives. The workforce of the retail sector is characterised as predominantly non-unionised, low paid, temporary and female, and these workers are most likely to be in receipt of wage top-ups that are paid in order to increase the attractiveness of low-paying jobs. The recipients of such benefits are also most likely to have been forced to find and/or accept work under pain of losing state benefits. Thus, many employees of the largest and most successful retail chains, especially cost-sensitive supermarkets, have their relatively low wages subsidised by governments. This supplement, as the discussion in Chapter 2 highlighted, remains largely hidden as support for low-income workers (and is hence perceived as a benefit to individuals), rather than, as Whitfield (2001) identifies, an income subsidy for low-wage employers (and hence a form of corporate welfare). In many welfare systems, individuals in low-wage jobs are able to continue to claim benefits, without which such work would not pay enough to incentivise them to take such jobs and/or lift families out of poverty. Large retailers, including the largest supermarkets in the UK and the US – Tesco and Wal-Mart, respectively – are accused of deliberately keeping wages low in the knowledge that the income of their workers will be supplemented by governments. As a result, through these methods, corporate profits are boosted with public money (Mattera and Purinton, 2004).

All of the above forms of sectoral support, while considerable, pale into insignificance when compared with the size of state provision given to the banking sector. However, the range of support offered to the finance industry is complex and often hidden. Large-scale rescues (such as the post-2008 bailouts, which will be discussed in more detail in Chapter 6) are partially covered by international declarations, but their value is systematically underestimated even in national accounts. The nature of support is complicated by the extremely close relationship between government and the finance industry in all states. Attempts to boost money liquidity and national interest rates have been used in the past to aid financial interests, although governments rarely acknowledge this. The whole basis of the finance industry – money – is ultimately underwritten, supplied and controlled by governments. It is governments that set minimum lending rates and control the supply of money, and all these functions have a direct impact on the profits of private banks. There is also a symbiotic relationship here, of course, since private finance also helps to fund government borrowing and the finance sector overall is, unlike many other parts of the economy, too important and too central to economies to fail. For this reason, governments have been forced many times historically, when the circumstances demand it, to intervene heavily to save and protect financial markets. The largest financial bailout in history, prior to the 2008 crisis, was the Savings and Loans crisis, which occurred in the US in the late 1980s. The estimated total cost of this single financial crisis is estimated to have been in excess of $200 billion (Glasberg and Skidmore, 1997), but the fact that this particular bailout was indirect and occurred within domestic finance markets means that it was not covered by international treaties.

Cross-sector support

Various companies with international ambitions also benefit from various export-support schemes provided by governments. Through these schemes, governments effectively underwrite the risks involved in certain foreign transactions to high-risk locations, either because the private sector will not cover such risks or because the premiums on such policies would be prohibitively high. Such support is often not included in subsidy declarations because many governments deny that export guarantees constitute a subsidy, instead arguing that these guarantees merely constitute an insurance against unknown risk. Moreover, because many schemes do not have to pay out on the guarantees offered and in many cases return a 'profit', many governments do not declare them even to their own parliaments.

A study of the UK's ECG scheme argued that, even where governments do declare the costs of ECGs, their real value to recipients remains hidden. In evidence to the UK's Trade and Industry Committee investigation into British ECGs, Paul and Richard Ingram (2003) suggest that official accounts estimated the real value of ECGs to be around four times the amount actually charged by the government. In 2004, the UK had around £19 billion of outstanding ECGs, of which £5 billion was allocated to the defence industry. Most of the rest goes to support the power plants and the oil and gas industry (Hawley, 2003). The government declared that it had charged £49 million for this cover when the market rate would have been around £135 million, representing a subsidy of some £86 million (Ingram and Ingram, 2003). This subsidy is not, however, counted as a subsidy anywhere in the UK's national accounts. Nor are similar schemes fully accounted for in the accounts of other governments, since such provision is not widely considered to constitute a subsidy.

Corporate welfare claimants: Six brief examples

The following section examines the importance of state support for six companies. These are not necessarily the largest recipients of state support, nor are these estimates exhaustive in terms of the total value of support provided to these companies, but they are included here because they are underpinned by good evidence and they are drawn from key sectors of the economy.

The first breif case study involves one of the largest single company subsidies to be declared in WTO data. Although ThyssenKrupp is a German company, it is also one of the largest steel companies in the world, the huge subsidy under discussion here was provided by the US government. It is difficult to estimate the total subsidies that international companies such as this receive, but US WTO data details assistance in excess of $800 million in the state of Alabama alone. The declared subsidies were made up of: $314 million in cash grants; $67 million in employee training support; $45 million towards purchase of land to locate a new plant; $25 million for the construction and maintenance of roadways; $350 million in tax breaks; and $8.5 million to purchase a suitable port site to service the import/export needs of the company.

The second case study involves Wal-Mart, one of the largest and most profitable companies on the planet. One estimate suggests that the total direct subsidies accruing to the company in the US over the past decade or so were in excess of £1 billion (Mattera and Purinton, 2004). The study found that several subsidies were received by stores, from local and federal government, including (1) free or reduced-price land subsidised by local governments to attract new Wal-Mart stores; (2) infrastructure subsidies, including land-requisition costs, the building of access road networks, and water and sewerage connections; (3) property and income tax breaks; (4) a sales tax rebate (retention of a proportion of the sales tax); (5) recruitment and training grants; and (6) general grants. Wal-Mart and other similar retailers, also benefit from low-wage subsidies and other state benefits, including child-care and reduced cash benefits, that go directly to workers but are needed in order to ensure that employment practices at the company (e.g. flexible shifts, the discouragement of unions and part-time work) are sustainable (ibid.).

The third case study involves one of the most controversial instances of corporate welfare provision and is the source of an long-running battle between the US and the EU – the alleged subsidies granted to the large EU and US based aircraft manufacturers Boeing and Airbus. Each side in the dispute has accused the other of heavily subsiding their own companies in direct and covert ways, but primarily through diverting military funding (and so state funds protected by the veil of 'national security') to R&D activities, tax write-offs and product-launch subsidies which directly benefit the aircraft manufacturers. In 2010 the WTO that ruled the US and EU had indeed provided illegal subsidies to these companies amounting to billions of dollars. Although both companies had previously denied being in receipt of subsidies, the comments of the chief executive of Airbus, Tom Enders, were incredibly illuminating when, in response to the ruling, he said the following in an interview with the Financial Times:

> Let's be honest about it, the simple truth is, in the aerospace or aeronautic business, none of us, none of the companies that

> play a role in it, has been growing without any government support . . . So let's accept reality.
>
> (*Financial Times*, 21 October 2010)

Part of the reason for this frankness appears to be an attempt by Airbus to reach out to Boeing in the face of new state-funded competition from China and Russia:

> If we talk about China, if we talk about Russia or others, does anyone in this room believe that they will step back and say: 'Now we understand the WTO rules, we will play exactly by the rules'? Absolutely not, so this is why I call this an absurdity.
>
> (Ibid.)

The fourth case study involves Archer Daniels Midland (ADM), which was identified as being 'the most prominent recipient of corporate welfare in recent U.S. history' by James Bovard in 1995. ADM is primarily an agriculture and farming company, and almost half of its profits each year stem from heavily subsidised or otherwise protected markets. It has gained most from huge ethanol subsidies. As already noted above, governments have supported the production of ethanol (and biodiesel) through start-up financing, tax exemptions on sales, regulations stipulating that a minimum quantity of biofuel is added to mineral fuel, and the tightening of tariffs on imported biofuel. ADM has benefited from such subsidies since the 1990s, as many countries, including the US, began to subsidise 'greener' fuel technologies to wean states off 'gulf oil' and, later, to reduce carbon emissions. Subsidies from ethanol alone were estimated to be worth around $2 billion a year (Philpott, 2006).

Fifth is GlaxoSmithKline (GSK), one of the largest pharmaceutical companies in the world. Like its competition, it too is heavily dependent on direct and indirect forms of state support. To begin with, the pharmaceutical industry obtains huge government subsidies in the form of the building of subsidised research centres and the publicly funded development of new drugs, primarily through research carried out in universities. In addition, drug companies then make the vast majority of their profits through direct sales to public health services (see Farnsworth and Holden, 2006). GSK also obtained over €2 million in European structural funds in 2008 to assist with investment costs in Malta and Spain. It also obtained a small grant of €4300 (financial peanuts to such a large company) to fund a feasibility study to investigate a potential solar-heated or gas-fired hot-water system for its work canteen in Ireland (*Financial Times* EU Structural Funds Database: http://eufunds.ftdata.co.uk/). This latter example is, on the one hand, hardly worth mentioning given its small size, but on the other it does clearly illustrate the extent to which even the largest corporations make use of public funds to subsidise the whole range of activities they undertake, even those that are only indirectly linked to its core business.

The sixth case study involves Dell, the global computer manufacturer, which has also succeeded in attracting large subsidies in the US. Good Jobs First has compiled details of the various subsidies awarded to the company between 1999 and 2004. This case study is interesting because it details how Dell has effectively played individual states off against each other in order to secure greater benefits in the US. In 1999, for instance, it announced its intention to build and operate a new plant, and various states campaigned for this new investment. Nashville, Tennessee, succeeded in securing the deal on the basis of the following benefits: 1) free land worth $6.5 million; 40 years of property tax exemptions; $20 million of infrastructure investment at the site; tax credits to employees worth $500 per employee over four years; capital tax allowances for machinery; and $4000 per employee to pay for job training costs. Then in 2004, Dell agreed a subsidy with the state in North Carolina made up of tax breaks, infrastructure and training grants that was allegedly worth in excess of $300 million, which exceeded the value of the investment Dell itself had agreed to put into the region (Good Jobs First, 2010).[3]

Conclusion: The key functions of corporate welfare

The above sections highlight the various ways in which state programmes and support measures are designed to function to satisfy business needs. Based on the range of evidence reviewed for this chapter, state programmes operate to benefit businesses in at least four ways:

(1) They facilitate or maximise new investment. Governments utilise incentives to boost new investment generally, but they also provide specific funding in order to promote new investment in depressed regions. Government funding may help by reducing investment costs, facilitating private lending through the issuing of guarantees and providing cash injections through grants or tax reductions.
(2) They to boost the competitiveness and/or sales of key sectors. Governments often promote products abroad and help to support the acquisition of new machinery or fund training for new employees.
(3) They underpin the incomes and/or profits of key industries. Governments may provide income support (as they do in the case of agriculture) and/or provide regular grants or subsidies to facilitate market stability. The benefits of such support extend beyond the interests of business people to general employees who may retain jobs in companies that otherwise may collapse.
(4) They faciltate the development of new products or markets. Governments provide financial and in-kind support for the promotion of new markets, including research grants, training subsidies and financing to facilitate investment in high-risk R&D.

These are essential functions in the life-cycle of corporations. Although the pattern of provision varies, state provision is clearly important at all stages: during the birth of corporations, during their growth and evolution, and during their decline and demise. Without such provision, many corporations simply would not thrive and survive. As we have seen, the range of support on offer is extensive. Neither does the range of support measures show any sign of dissipating during the present phase of global capitalism. As noted in the introduction, corporate welfare is as essential to the satisfaction of corporate needs as social welfare is to human needs.

6
Corporate Welfare and the Global Economic Crisis

Background to the crisis

This final chapter examines the implications of the post-2008 global economic crisis for social and corporate welfare. As Chapter 1 noted, major international economic crises are relatively infrequent, but when they do occur they are often revolutionary in terms of their impact, transforming state, business and labour relations, and requiring gargantuan efforts on the part of governments and other interests to defend and maintain existing economic and political systems. The 2008 crisis was no exception to this. The initial event cost billions in immediate measures to try to stave off the collapse of national banking systems, and the ensuing recession cost billions more in trying to prevent bankruptcies in the manufacturing and service sectors. Incumbent governments lost power and labour relations were transformed. The effect on corporate welfare, in particular, was immediate; the most anti-statist period of the twentieth century since the Second World War gave way to a period of unprecedented growth in state intervention. In its immediate aftermath, both social and corporate welfare received a boost, but the largest increases were in corporate welfare in the form of bailouts and other programmes designed to inject life into flailing businesses. But, as the dust has settled on the crisis, it has become increasingly clear that in many nations, social welfare ultimately has to bear the main costs of this increase in corporate welfare.

As noted in previous chapters, the post-2008 crisis took place against a backdrop of ideological opposition to the state. Chapter 3 illustrated how neoliberal globalisation has promoted an ideological consensus that has maintained that state intervention within the economic and social sphere should be curtailed, and that such views have dominated global politics since the 1970s. During this period, capitalism did not face any significant challenge from alternative economic systems as it had during the Cold War and, while state expenditure remained high, regulations and inequality between rich and poor widened in most developed economies. Faith in markets reached its climax in the period between 1980 and 2007, but this was rocked by the crisis. By September 2008 it was widely accepted that the world (or at least large parts of it) was changing. Even those who have tended to be defenders rather than critics of capitalism, such as Anatole Kaletsky, economics editor of *The Times* newspaper in the UK, were prompted by the collapse of Lehman Brothers in the US to argue that

> What collapsed on September 15, 2008, was not just a bank or a financial system. What fell apart that day was an entire political philosophy and economic system, a way of thinking about and living in the world.
>
> (Kaletsky, 2010, p. 1)

Several factors distinguish the 2008 crisis from other crises in history. To begin with, it arose during a period of unprecedented international financial interdependence. Secondly, it occurred against a backdrop of relatively high levels of national public expenditure within mature welfare systems. Thirdly, the size of the rescue packages required in order to stabilise financial markets was unprecedented. Having borrowed heavily to rescue key industries, states had to make drastic cuts in social welfare to try to reduce debt. Thus, the crisis demanded a major redistribution of resources towards corporate welfare and away from social welfare. However, the extent of this redistribution depended, in turn, on a range of other endogenous and exogenous factors. Different nations were hit differently by the crisis, and the impact on welfare systems was variable. Thus, as argued in greater detail elsewhere (see, e.g., Farnsworth and Irving, 2011), what is described as 'the' economic crisis of 2008 may be better understood as multiple and overlapping crises, with the resultant impact on the shape of welfare within different states also highly variable. The shape of welfare systems prior to the crisis was also important, since the existing distribution of resources within welfare states either helped to mediate its impact or, indeed, increased its eventual severity.

The crisis also had an impact on political relations within nation states. It forced parties of both Right and Left to preside over huge state interventions and it forced trade unions to come to the defence of corporations, in some cases putting long-term corporate interests above their own short-term gains. Workers accepted pay cuts and lock-outs, and they fought hard for greater levels of state assistance for corporations. And the Left has failed to capitalise on the crisis to present an alternative vision for capitalism in the way that the Right capitalised on the perceived problems of interventionist Keynesian economics in the 1970s, paving the way for the erosion of trade union power and the cuts in social spending that inevitably followed (Kaletsky, 2010). And while Keynes was revived by this most recent crisis, insofar as state intervention to rescue ailing economic fortunes was strongly advocated in its aftermath, Beveridge was not rehabilitated in quite the same way. As already noted, social expenditure and progressivity have been the early victims of international moves to 'rebalance' national economies from 2010. For various reasons – ideology, pragmatics, economic straightjackets – many governments are seeking to pay back the costs of corporate welfare and the associated costs of the crisis by imposing massive cuts in social welfare.

Origins

Before moving on to a discussion of the impact of the crisis on nation states, it is important to provide some background to its origins. The crisis began in around April 2007 and was triggered primarily by the collapsing sub-prime mortgage market in the US. US banks had lent far more than individuals could afford but did so in the belief that house prices would continue to rise (Stiglitz, 2010). Thus, the relative risk of such lending appeared to be low. In addition to this, banks covered their exposure to risk by effectively repackaging and reselling mortgage products (and the risks attached to them) to other brokers around the world. In this way, debt was kept off the books of companies, making them appear financially healthier and less exposed to risk than they were in reality. Inadequate (or inadequately policed) regulations that had been loosened in order to satisfy the projected competitive needs of the financial industry underpinned unsustainable levels of risk. The collapse came when the resulting volatile and complex financial products began to unravel. As the US economy began to slow from 2006/7, it had a negative impact on the housing market and prices began to fall. As a result, borrowers began to default on their mortgages in ever greater number, and the realisation quickly spread that many financial institutions, located throughout the globe, would be unable to cover the losses incurred from this slowdown. Smaller institutions collapsed and larger institutions couldn't recoup their losses, leading to larger banking failures. The largest financial firms, including the largest domestic banks, were suddenly exposed to huge amounts of devalued collateral in the form of declining property stocks and heavy numbers of mortgage defaults. Their only hope of survival was to try to build up reserves, and this meant withdrawing lending facilities to consumers, businesses and other banks. This had immediate knock-on effects for national economies, as huge amounts of lending capacity, and consumer expenditure, suddenly dried up.

By August 2007, liquidity problems were beginning to appear in many national banking systems. National Libor (inter-bank lending) rates increased exponentially in many countries, where inter-bank lending was occurring at all. The EU, the US and Japan all began pumping the equivalent of hundreds of billions of US dollars into their banking systems to try to increase liquidity but, by the end of 2007, the first victims of the financial crisis began to emerge: Northern Rock collapsed in the UK, while Swiss Bank UBS, Citigroup and Merrill Lynch all reported massive losses. Towards the end of 2008 the knock-on effects of the mortgage crisis, which by then had become a banking crisis, were felt worldwide as huge financial players folded: in the US, Lehman Brothers declared bankruptcy and the government took over AIG; in the UK, the government brokered the takeover of HBOS by Lloyds TSB and brought both this new superbank and the Royal Bank of Scotland into part-public ownership. The losses incurred in the advanced economies during this period included not only those investments of the private sector and the interventions of the public sector – including increased interest payments on government debt and a diversion of public financing away from state services towards propping up private institutions – but also the growing number of industrial bankruptcies that resulted from both the economic downturn and the lack of access to private capital. The cost of private credit soared, pension and other financial assets collapsed and many workers lost their jobs. State interventions, including social welfare provision, helped to prevent complete meltdown, but in the aftermath of the crisis, as economies have recovered, a new age of austerity has emerged.

The international response

One of the more immediate effects of the crisis was to challenge neoliberal perspectives on the global economy and to reconfirm the importance of multilateral strategies to stabilise the global economy. A number of governments – the EU plus the G8 countries in particular – came together in late 2007 to try to stem the crisis in international financial markets and devise strategies for protecting their own economies. A number of high-level international agreements were brokered, including a multibillion US dollar cash injection into banking markets by the EU, the US, the UK, Canada and Japan, coordinated by the US Federal Reserve in December 2007. In November 2008, the G20 gathered to discuss ways out of the crisis, and there were a number of formal meetings and behind-the-scenes negotiations between governments, especially within the G7 countries, to coordinate action on banking liquidity and interest rates, and to try to suppress growing signs of unilateralism in some states by reconfirming their commitment to global free trade and improved multilateral regulations in future. These efforts were probably unique in the speed with which they were put together and also their relative success in uniting a wide range of countries in coordinated efforts to stem the crisis.

The extent of the eventual internationally coordinated effort to resolve the crisis was hugely significant in political and economic terms. Politically, the idea that governments should not intervene in their economies was torn up. Neoliberalism was out and Keynesianism was in, as Gordon Brown revealed following the 2008 meeting:

> The old Washington consensus is over. Today we have reached a new consensus – that we take global action together to deal with the problems we face; that we will do what is necessary to restore growth and jobs; that we will take essential action to rebuild

> confidence and trust in our financial system, and to prevent a crisis such as this ever happening again.[1]

Apparent changes in the IMF, one of the key proponents of neoliberalism and the Washington Consensus, appear to bear this out. According to its own account of its actions in the aftermath of the crisis, the IMF argued that it had been:

> outspoken during the crisis in pressing for a coordinated response to the crisis through cuts in interest rates, big increases in government spending, cleaning up the financial sector, and bolstering regulation.[2]

The EU and WTO also relaxed their rules on takeovers and corporate subsidies. The global crisis, therefore, launched a series of unique, globally coordinated corporate welfare programmes. Within relatively free global trading environments, unilateral programmes aimed at stimulating demand in one nation have only limited impact, resulting in increased demand for goods produced elsewhere, and this fact encouraged governments to work together more closely to tackle the crisis to ensure wider impact, including coordinated efforts to try to save the second-worst hit industry after the banks, the auto industry.

Early enthusiasm for multilateral solutions to the global crisis was quickly tempered, however, by a simultaneous move in the opposite direction – towards protectionism and the preservation of national corporate interests. The $825 billion US stimulus package agreed in February 2009, for instance, specified that only US iron, steel and manufactured goods were to be used in the projects funded by the package, although an amendment to the bill, introduced after international opposition, stated that 'international trade agreements should be honoured'.[3] In June of the same year, China announced its own decree that its stimulus, worth around $700 billion, would have to be spent on products manufactured by corporations within China (*Daily Telegraph*, 17 June 2010[4]).

Country data

Evidence of the variable costs of the crisis is provided in Table 6.1. This illustrates the range and enormous costs of the rescue measures

Table 6.1 Headline support for the financial sector, upfront financing need and the cost of discretionary measures, 2008–10 (% GDP)

	Finance and banking sectors							Non-targeted measures, total (2008–10)
	Capital injection	Purchase of assets and lending by treasury	Central bank support provided with treasury backing	Liquidity provision and other support by central bank	Guarantees	Total	Upfront government financing	
Argentina	0.0	0.9	0.0	0.0	0.0	0.9	0.0	1.5
Australia	0.0	0.7	0.0	0.0	8.8	9.5	0.7	5.8
Austria	5.3	3.5	0.0	0.0	26.6	35.4	8.9	
Belgium	4.8	0.0	0.0	0.0	26.4	31.1	4.8	
Brazil	0.0	0.0	0.0	1.5	0.0	1.5	0.0	1.1
Canada	0.9	8.8	0.0	1.9	13.5	25.1	9.8	3.6
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.2
France	1.4	1.3	0.0	0.0	16.4	19.2	1.6	1.5
Germany	3.8	0.4	0.0	0.0	18	22.2	3.7	3.6
Greece	2.1	3.3	0.0	0.0	6.2	11.5	5.4	
Hungary	1.1	2.2	0.0	4.8	1.1	9.2	3.3	

India	0.4	0.0	0.0	6.3	0.0	6.7	0.4	1.8
Indonesia	0.0	0.0	0.0	0.0	0.1	0.1	0.1	2.0
Ireland	5.4	0.0	0.0	0.0	261	267	5.4	
Italy	0.8	0.0	0.0	2.5	0.0	3.3	0.8	0.3
Japan	2.4	11.4	0.0	1.2	7.3	22.2	0.8	4.5
Korea	2.5	5.0	0.0	0.2	12.7	20.4	0.3	6.0
Netherlands	3.4	2.8	0.0	0.0	33.9	40.1	6.2	
Norway	2.0	15.8	0.0	0.0	0.0	17.7	15.8	
Poland	0.0	0.0	0.0	0.0	3.2	3.2	0.0	
Portugal	2.4	0.0	0.0	0.0	12.0	14.4	2.4	
Russia	0.6	0.5	0.4	7.6	0.5	9.6	1.7	5.4
Saudi Arabia	0.0	1.2	0.0	0.0	. . .	1.2	1.2	9.2
Spain	0.0	4.6	0.0	0.0	18.3	22.8	4.6	4.2
Sweden	2.1	4.8	0.0	15.4	47.5	69.7	5.2	
Switzerland	1.1	0.0	0.0	7.2	0.0	8.3	1.1	
Turkey	0.0	0.3	0.0	0.0	0.0	0.3	0.0	1.1
United Kingdom	3.9	13.8	12.8	0.0	51.1	81.6	18.9	1.7
United States	4.6	2.3	0.7	41.9	31.4	81.0	7.5	4.9

Source: IMF (2011).

introduced by governments in various states between 2008 and 2010, which took various forms, such as injections of direct capital (in the form of loans and grants); and increasing financial liquidity (the availability of money; and guaranteeing the liabilities of financial institutions by promising to honour their debts). This has been necessary where the soundness of some banks has been threatened by their exposure to high-risk or toxic debt, and where the continuation of such exposure is likely to lead to a collapse in confidence surrounding the bank and an ensuing 'run' on any remaining capital held by the institution.

The estimates of the costs of these various corporate welfare measures are almost too big to comprehend. The value of the corporate welfare bailouts in Ireland, for instance, was in excess of 260 per cent of GDP. To put this into perspective, if the Irish Government chose to continue to levy taxes at the same rate as today but dedicated the resulting tax receipts in their entirety to paying back the costs of the bailout, it would take over six years to pay back. In the UK, the value of the financial bailouts amounted to around £1 trillion (£1,000,000,000,000). This is equivalent to almost double the entire annual expenditure of the UK government and two-thirds of the entire UK GDP. But these figures do not represent the actual cost of the bailout borne by governments. Table 6.1 illustrates total (projected) costs and 'upfront' costs (basically the money that governments had to actually find). The actual costs of upfront financing are relatively straightforward to calculate, but the costs of guarantees, loans and liquidity measures remain unknown. The eventual cost could be zero, but then again it could be astronomical. Governments will recoup some costs when they begin to resell acquired assets and, in some instances, they may make a profit for taxpayers. However, the amounts recovered from the sale of assets, such as shares, is unlikely to result in 100 per cent reimbursement of the initial layout, let alone recover the costs of servicing the debt incurred as a result of the layout (which fall onto social welfare in the form of expenditure cuts, or general taxation, most of which impacts citizens).

The upfront costs of the bailouts underestimate the value of the corporate welfare measures provided by governments, however. Guarantees necessarily result in a cost for government, as these represent free insurance policies for corporations. A household taking out insurance will not necessarily result in a cost to the insurance company, but the policy will generally cost something. In other words, government guarantees are worth a great deal to private banks. There have also been a number of other 'benefits' provided by governments to the finance industry, including low-cost short-term loans and relatively cheap money, which banks have been able to lend on to consumers at much higher rates of interest. Banks have been able to borrow from governments at rates close to zero in many economies, while lending to their customers for double-digit rates of interest, generating large and immediate profit. Such 'subsidies' are not properly costed in the figures above and their true value to the private sector may never be known.

Outside the finance industry, governments have relied on a combination of measures, including new investment in infrastructure to create jobs and boost the construction industry; increased support to aid SMEs and/or agriculture; the extension of social safety nets to protect individuals and maintain some level of economic demand; support for new housing and/or the housing industry; targeted support to specific sectors; cuts in corporate and personal income tax to increase corporate and individual incomes and boost investment and expenditure; and reductions in indirect taxes, again to boost economic demand. Table 6.2 summarises the range of stimulus measures employed by a number of countries in response to the crisis. Interestingly, the most popular measure employed by governments has been to utilise social expenditure, increasing the value of benefits in some countries and relaxing conditionality rules, in order to protect those who have lost jobs but also to help boost demand and reduce the impact of the recession. Beyond this, the majority of those countries reviewed by the IMF in 2009 increased capital expenditure on infrastructure investments (including road-building programmes and housing development). Governments also cut taxation, both on personal incomes and expenditure (to increase consumption demand) and on corporations, and increased depreciation allowances and other support, including subsidies (to protect business profits, or at least cashflows, and reduce insolvencies). The largest single industry subsidies outside finance were targeted towards the automobile sector. All of the major economies ran trade-in scrappage schemes during 2008–09, the most generous subsidy per vehicle being provided in the US (worth US$4000 per vehicle), followed by Germany and Portugal (which provided subsidies at roughly half the rate of the US) (see Figure 6.1).

Table 6.2 G20 stimulus measures

2008–10

	Argentina	Australia	Brazil	Canada	China	France	Germany	India	Indonesia	Italy	Japan	Korea	Mexico	Russia	Saudi Arabia	South Africa	Spain	Turkey	United Kingdom	United States
Expenditure																				
Infrastructure investment	X	X		X	X	X	X	X	X	X	X	X	X		X	X	X		X	X
Support to SMEs and/or farmers				X			X				X	X		X				X		
Safety nets	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X	X	X	X
Housing/construction support		X	X	X	X	X	X	X		X	X	X		X		X	X		X	
Strategic industries support				X	X		X			X				X			X	X		
Corporate tax breaks		X	X	X			X		X	X	X	X		X				X		X
Indirect tax reductions/exemptions	X		X		X	X	X	X	X	X		X					X	X	X	

Source: IMF (2009) IMF staff position note, fiscal implications of the global economic and financial crisis (SPN/09/13) 9 June. Washington: Washington IMF.

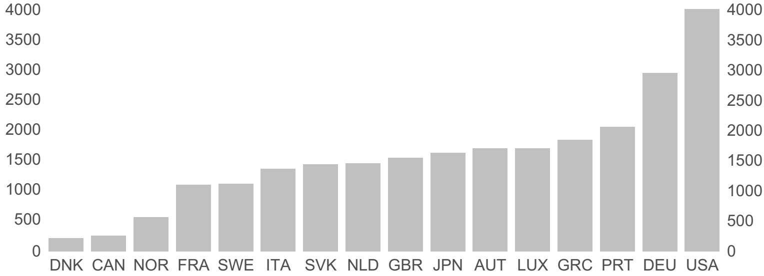


Figure 6.1 Average scrapping subsidy levels in OECD countries – In $, purchasing power parity (PPP)
Note: Only the federal subsidy is reported for Canada.
Source: OECD calculations based on national sources.

The social welfare price for emergency corporate welfare measures

In the worst-hit economies, then, the crisis has seen a massive expansion in corporate welfare and, to try to recover the costs of this, a sharp and equally massive contraction in social welfare has been the most immediate response. Although the various financial rescue and economic pump-priming measures have helped to protect all interests, they were primarily business-driven, that is, the assessment of whether or not to intervene has not been driven by concerns about protecting the incomes and welfare of individuals but more about protecting the economic 'system'. The medium- and long-term impact on government finances of these various attempts to rescue corporations (if not capitalism), coupled with the impact of the global recession that followed the crisis, is captured in Table 6.3 and 6.4. Fiscal balances (the difference between taxation and spending) declined sharply in most states and are not set to recover any time soon. Accumulated national debt has also risen sharply, running at an average of 73 per cent of GDP in the G7 countries in 2007 and increasing to 99 per cent of GDP by 2009. A failure to address fiscal imbalances could result in overall OECD debt rising to an average level of over 118 per cent of GDP by 2018.

The IMF, some governments and parts of the private finance industry have concluded that this situation is unsustainable. Debt in particular must, in the opinion of the IMF, be pared back to a

Table 6.3 Fiscal balances and general government debt (% GDP)

Country	Overall fiscal balances 2007 (pre-crisis)	2009	2010	2014	General government debt (gross) 2007 (Pre-crisis)	2009	2010	2014
Australia	−1.5	−4.3	−5.3	−1.1	9.8	16.9	22.7	27.8
Brazil	−2.8	−3.8	−1.2	−1.0	66.8	58.5	65.9	58.8
Canada	1.6	−4.9	−4.1	0.0	64.2	78.2	79.3	68.9
China	0.9	−3.9	−3.9	−0.8	20.2	20.2	22.2	20
France	−2.7	−8.3	−8.6	−5.2	63.8	78	85.4	96.3
Germany	−0.5	−4.2	−4.6	0.0	63.4	78.7	84.5	89.3
India	−4.4	−10.4	−10	−5.7	80.5	84.7	85.6	78.6
Italy	−1.5	−5.6	−5.6	−5.3	103.5	115.8	120.1	128.5
Japan	−2.5	−10.5	−10.2	−8.0	187.7	218.6	227	245.6
Korea	3.5	−2.8	−2.7	2.6	29.6	34.9	39.4	35.4
Mexico	−1.4	−4.9	−3.7	−3.1	38.2	47.8	47.9	44.3
Russia	6.8	−6.6	−3.2	2.2	7.4	7.2	7.7	7.2
Saudi Arabia	15.7	5.0	10	14.5	18.5	14.5	12.5	9.3
South Africa	1.2	−4.4	−4.7	−2.5	28.5	30.8	33.5	34.8
Turkey	−2.1	−7.0	−5.3	−4.8	39.4	48.1	49.6	52.8
United Kingdom	−2.6	−11.6	−13.2	−6.8	44.1	68.7	81.7	98.3
United States	−2.8	−12.5	−10.0	−6.7	61.9	84.3	93.6	108.2

Source: IMF (2010)

'moderate level', equal to around 60 per cent of GDP. Such a move will entail, and is entailing in several economies, unprecedented, deep spending cuts for some time. The impact on a number of welfare systems is likely to be devastating.

Figure 6.2 plots the IMF's prescribed 'medicine' that different countries will need to take between 2010 and 2020. Economies that have historically had lower levels of public expenditure have, in fact, been hit hardest by the crisis, and these welfare states face the toughest future decisions on spending. This 'target rate' is the amount of adjustment needed in public finances between 2010 and 2020 in order to reduce national deficits to zero by 2030. The required adjustment is greatest in the US, Greece, Spain, Ireland, the UK and Japan. The UK will, according to the IMF, transform a 9 per cent fiscal deficit into a 4 per cent surplus by 2015 and sustain this until around 2030 to pay back its debt.

Immediately clear from Figure 6.2 is that the largest cuts are 'required' in the very countries that historically have relatively low

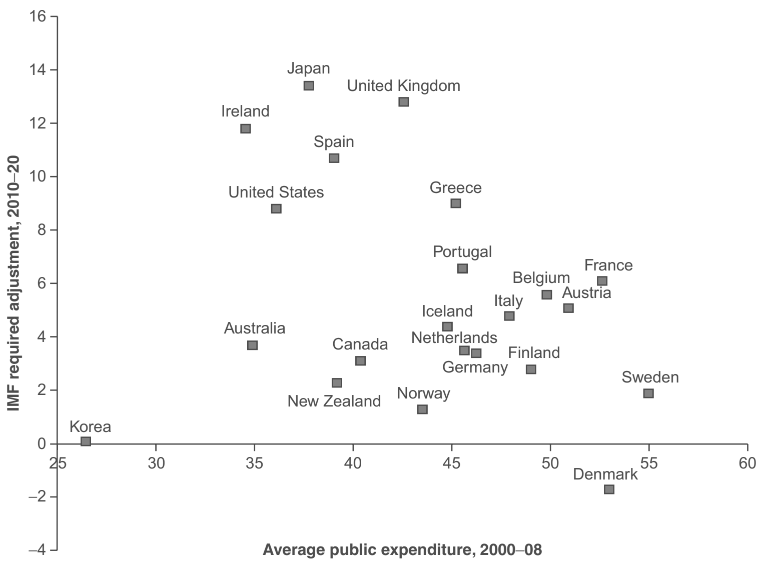


Figure 6.2 IMF required fiscal adjustment and average public expenditure, 2000–08

Table 6.4 G20 countries: Selected fiscal risk indicators

	Ratio: Net interest payments to GDP		**Ratio: Net interest payments to expenditure**		**Ratio: Net interest payments to fiscal revenues**		**Ratio: General government gross debt to fiscal revenues**	
	2007	**2014**	**2007**	**2014**	**2007**	**2014**	**2007**	**2014**
Argentina	4.5	2.6	13.5	7.0	14.4	7.3	215.1	131.9
Australia	−0.4	0.9	−1.2	2.4	−1.1	2.5	26.4	77.1
Brazil	6.3	4.3	16.8	11.5	18.1	11.8	190.2	162.4
Canada	0.6	0.2	1.5	0.5	1.5	0.5	158.4	166.8
China	0.4	0.6	2.0	2.5	1.9	2.6	98.9	90.2
France	2.3	3.2	4.5	5.9	4.7	6.5	128.7	197.2
Germany	2.4	2.1	5.4	4.8	5.5	4.8	144.5	203.4
India	5.5	5.6	20.3	19.1	24.2	23.8	353.2	336.5
Indonesia	2.0	1.8	10.2	10.2	10.9	11.0	189.3	168.2
Italy	4.8	6.2	9.9	11.8	10.3	13.1	220.7	272.9
Japan (net debt)	0.5	2.6	1.5	6.5	1.6	8.1	604.5	446.2

Korea	1.4	1.5	6.4	6.4	5.5	5.8	118.7	136.6
Mexico	2.7	2.8	11.7	11.2	12.4	12.8	178.4	204.2
Russia	0.6	0.6	1.7	2.1	1.4	1.9	18.5	21.4
Saudi Arabia	1.5	0.6	4.3	1.8	2.9	1.3	36.9	19.2
South Africa	1.1	1.4	2.9	3.3	2.7	4.0	88.1	276.8
Turkey	5.9	5.4	17.4	14.8	18.6	17.0	124.5	165.1
United Kingdom	1.6	3.1	3.9	7.0	4.2	8.3	116.8	267.4
United States	2.2	4.5	6.6	12.4	7.2	15.2	206.9	364.4
G20 Countries (GDP PPP weighted)	2.1	3.0	6.6	8.7	6.8	10.0	197.9	246.0
Advanced G20 economies	1.9	3.5	5.2	8.8	5.5	10.7	225.5	300.5
Emerging G20 economies	2.5	2.3	9.6	8.3	9.5	8.9	142.3	137.1

Source: Staff estimates based on the October 2009 World Economic Outlook. Projections for Turkey reflect staff's assessment of the policy measures underpinning the authorities' medium-term programme.

levels of corporate and social welfare expenditure. On the other hand, countries with historically high levels of corporate and social welfare expenditure – Denmark, Sweden, Finland, France, Austria and Belgium – require relatively minor fiscal adjustments or no adjustment at all (indeed, Denmark can afford to increase its expenditure slightly). The outcome of the proposed fiscal adjustment would be an even wider gap between the most comprehensive and the more minimalist welfare states and, since it will have a grave impact on social and corporate welfare, this will probably have a negative effect on economic growth and social well-being. It may also lead to more serious conflict between trade unions and business associations as both fight to maintain state support. This is made more likely by the fact that the aftermath of the crisis is leading to cuts in expenditure that might more accurately be described as driven more by ideology than necessity (see Farnsworth and Irving, 2011). The political Right has risen in a number of countries to push for deep cuts in expenditure and a reduction in the size of the state that goes beyond IMF prescriptions. This is especially true in the UK, Sweden and Canada (ibid.). As a result of such measures, the trade-off between corporate and social welfare that has been both muted and largely hidden in the past may yet become much more transparent and more openly acrimonious.

Conclusion

The preceding discussion points to an understanding of 'the crisis' not as a single monolithic event but as a set of interlinked emergencies borne differently across the different varieties of welfare state. Thus, while the impact of these crises is felt almost universally by populations, it by no means represents a common or uniting experience. Any sense of global togetherness that has been generated seems to be outweighed and thwarted by the resilience of dominant structures, ideas and discourses, as well as national difference. It is clear, however, that there is a continuing struggle over the redistribution of resources, albeit one that has changed most significantly within developed nation states, and most especially those that have been most exposed in terms of the volume of support required in the financial sector. This chapter suggests that with reference to theoretical frameworks established in both the varieties of capitalism and the welfare regime literature, we can better understand what is expected to be a widening gulf between the social policy development of states with a commitment to welfare and those without.

Although the extent to which the crisis has impacted on states varies widely between nations, the crisis has exposed the lie of free-market capitalism. It has illustrated clearly and sharply the extent to which corporations are dependent on governments for their continued survival. Moreover, in several countries, the outcome of the crisis has been to force governments to save corporations and this is being converted into drastic cuts in social welfare. To put it more simply and more starkly, there has occurred a major redistribution of welfare effort towards corporations and away from individuals. This fact, more than any, highlights the importance of including corporate welfare in any discussions of state welfare programmes.

7
Conclusion: Social versus Corporate Welfare

This book set out to demonstrate the importance of the state and public services to thriving capitalist economies and thriving corporations. Business communities within nation states are often reluctant to acknowledge this, however, and governments are just as reluctant to publicise how they assist corporations through various means. And yet, just as the social welfare state is there for citizens from cradle to grave, the corporate welfare state is there to protect corporations from their birth to their demise. Governments help to ensure that the sociolegal context is conducive to new corporations emerging. It assists in their establishment, using public funds to provide financing and to reduce the risks to would-be entrepreneurs of the premature death of their corporation. It is there in the early years to help share the R&D costs. More public money may be made available to support expansion plans and the development of global markets. For some companies, government ministers and prime ministers help with marketing and negotiate sales with senior politicians and company executives on their behalf. Meanwhile, companies are able to make use of publicly educated workers and, should they not be needed in future, the state picks up the pieces, and the tab, through public benefits. Where more highly skilled workers are required, the state provides higher education and additional assistance to companies that need to develop specialised training facilities. Publicly funded universities, meanwhile, provide access to facilities that help with new product development that companies can exploit in the market place. If those same companies experience periods of crisis, governments may make additional funds available to them or ease their plight by providing them with emergency life support in the form of cash grants, subsidies or financial guarantees to keep creditors at bay. And if companies should perish, the state helps to pick up the pieces, supporting their former employees, forsaking money owed to them and protecting the interests of their owners. The costs of all this to governments and citizens is huge.

This would not, in and of itself, be a problem if there was an appreciation of the ways in which businesses are key stakeholders and recipients of state welfare. But there is a fundamental lack of transparency, accountability and even acknowledgement within corporations, government and beyond that businesses extract such benefits from government. Indeed, it is more common to hear about the damage that governments do to businesses, undermining competitiveness, profitability and entrepreneurialism. The reality is that the needs and priorities of business frequently steer government priorities and drive policy decisions. This becomes clear whenever government budgets are put under pressure, as they were in a number of countries in the wake of the post-2008 crisis; policies and programmes that are aimed at meeting the needs of business tend to be the last to be cut. This should not be a great surprise. As Marx and Lindblom, writing from different traditions, both argued, the needs of businesses have to take priority in capitalist societies because, without healthy corporations, there would be no resources to pay for the state. Thus, all democratic capitalist states strive to ensure that the needs of businesses are met; only some strive to ensure that human needs are similarly satisfied.

Thus, corporations need the state and the state needs corporations. This symbiotic relationship is important to understanding why and how corporate welfare evolves and exists as it does. It also helps to begin to explain why so little is known about state assistance to private businesses. Powerful corporations seek to keep such discussions off the political agenda. And governments, fearing a political backlash, not to mention legal challenges from competitor nations, seek to do the same. Without transparency relating to costs, research, analysis and academic study are further hampered. It is this complicity of ignorance and silence that surrounds corporate welfare that this book set out to begin to tackle.

This book has offered a number of ways of conceptualising and accounting for corporate welfare. Its total value accounts for around

40 per cent of total public expenditure across the OECD. This is not an exact figure – the data on which it is based are not exact. But, for the reasons outlined here, this is as likely to be an underestimate of the value of corporate welfare as an overestimate.

We have also seen that different states assist, protect and help to fulfil the needs of people and corporations in different ways. Thus, while it is possible and important to draw clear conceptual distinctions between corporate and social welfare, they are, in practice, interlinked, intertwined and interdependent. It would be a mistake to treat all corporate welfare as narrowly benefiting only private businesses just as it would be a mistake to assume that social welfare benefits only its immediate individual recipients. This book has set out to highlight the important role that social and corporate welfare bring to a range of interests in society. This is even true of the 'purest' forms of corporate and social welfare. Corporate grants – one of the purest forms of corporate welfare – may, for instance, bring significant benefits to workers, small businesses and the wider community if they help to underpin the survival or promote the growth of the most important companies in an area. A company that evolves or survives as a result of state assistance will likely continue to provide employment, pay taxes and invest. Corporate subsidies may also fulfil a social welfare function by ensuring that essential commodities or services are provided at a lower end-cost to consumers.

The purest forms of social welfare also bring essential benefits to businesses. Social care services, one of the 'purest' forms of social welfare, not only contribute to social harmony and social control (both of which are important to business activities), but also are beneficial to the private sector because private firms directly contract with the state to deliver an increasingly large proportion of such services. Although the exact pattern of benefits changes from state to state, as the analysis in this book has repeatedly emphasised, there are very few areas of public expenditure that do not bring some benefits to private corporations. This is true even of cash benefits that go to the workless and public sector wages that help to boost demand for private goods and services.

But this is not to deny the risks involved. A company that avails of state largesse may also utilise public money in order to boost profits while it lays off workers, evades taxation and actively campaigns against state programmes aimed at others, including the very forms of corporate and social welfare that so benefit the private sector as a whole.

The book highlighted a number of other risks, but one of the most important stemmed from lack of transparency surrounding corporate welfare and the barriers this presents to achieving a more equitable and efficient distribution of state resources. All corporations obtain benefits and services from the state, but some obtain more than others. The lack of scrutiny of corporate welfare prevents any real discussion of whether better use could be made of state provision if it was distributed differently. The largest businesses, with the best political connections and the most resources to spend on political lobbying, are best placed to secure the highest levels of state funding, but they might not be the most deserving. In this respect, better scrutiny of state support would benefit business interests as a whole, instead of tending towards favouring the largest and most powerful.

A not unrelated problem is that individual businesses often become so caught up in their own short-term interests that they are blind to the benefits they obtain, or might obtain in the future, from the state. This problem is exacerbated by the fact that businesses do not make even claims on the state throughout their lifecycle. They depend on the state most during the beginning of their life and towards the end of it – just as citizens do – and they draw on state resources least during their prosperous early to middle age. The problem is that it is during their most prosperous phase that corporations tend to be most powerful and most condemning of the state. It is also during this phase that the relative 'costs' imposed on businesses by the state in the form of taxation are likely to be at their highest, precisely at that time when the relative benefits that accrue to those businesses are likely to be at their lowest. Thus, it becomes clear, if it were not clear already, that individual businesses are not necessarily the best judges of their own particular needs, nor of the most optimal level of state provision more general. Thus, business perspectives cannot, and should not, be taken too seriously when they condemn state regulations and/or the size of the state – they are not necessarily in a good position to accurately assess their own risks (they face incentives to ignore or play down such risks) and they are certainly not in a good position to calculate the risks they present to other companies, citizens, consumers or the environment. The very same firms that actively campaign against state regulations, taxes and expenditure are often the same firms that depend heavily on state provision during ordinary times and large state hand-outs during more difficult times.

There is a further issue that is important here and it is an issue that part of the Left struggle with. There is nothing fundamentally wrong with corporate welfare. The problem occurs where social welfare is diverted away from citizens towards corporations, or where corporate welfare does not fulfil wider social objectives. There is also a problem where corporations refuse to pay for the state. What is needed is a wider recognition of the reality that corporations need the state and depend on public provision. Following-on from this, it is legitimate to expect that corporations live up to the kinds of duties that are expected of citizen-recipients of state provision. Most importantly, it is important that businesses and their executives pay a larger share towards maintaining state provision and engage in a more sensible and progressive debate about the future of public provision than is often heard. The main focus of the discussion in this book, then, has centred on three key concerns: (1) how corporations benefit from state programmes; (2) which particular programmes benefit corporations and how; and (3) what the annual cost is of corporate welfare programmes to the state. The answer to the second two questions varies between nations. There are various reasons for this: Right-leaning governments are more likely to oppose high taxation and high state spending; corporate welfare may compensate corporations that are disadvantaged by high tax rates; and strong labour unions are likely to push for social welfare measures and for failing industries to be protected from closure. There may be a trade-off between social and corporate welfare, but this is more likely to occur where there is greater conflict between business and labour interests and/or where fiscal pressures are especially high. What becomes clear from the data analysed in this book is that the extent of corporate welfare (whether direct subsidies or other forms of state provision that directly or indirectly benefit corporations) was found to vary between states and vary positively with social welfare; that is, high levels of social welfare are often accompanied by high levels of corporate welfare and vice versa. Secondly, welfare provision is sticky. In the case of social welfare, spending decisions are often 'locked in' by long-term commitments. This is especially the case with pensions that are underpinned by commitments made many years in advance of any claims made on them. In the case of corporate welfare, spending commitments may be difficult to withdraw if the result of such withdrawal is inevitable corporate collapse. The risks here are increased where corporations are large or where they occupy politically or economically strategic positions. Important here is also the fact that corporate welfare often goes to very powerful lobbies. Indeed, part of the total benefits received by corporations may actually go to fund such lobbying, including political donations.

Social and corporate welfare may also heavily compensate employers in high-spending social democratic regimes by shifting most of the costs of corporate welfare onto citizens and a large proportion of 'non-wage' costs onto the state. In countries with lower levels of social welfare, governments may have to rely more heavily on corporate welfare (to offset higher non-wage costs) or may have to rely more heavily on reducing production costs in other ways (e.g. through lowering regulations or corporate taxation rates).

Regarding the empirical evidence relating to corporate welfare, the data examined in Chapters 4, 5 and 6 confirm the importance of public policies to the businesses. In order to try to meet the perceived needs of business, governments have relaxed regulations and generally reduced corporate taxation (especially the most 'visible' headline rates). The effect of downward pressure on corporate taxation is that, in many economies, corporations far extract more from governments than they contribute in tax revenues.

Business tax handouts are difficult to estimate, but data from the OECD suggests that the UK's disclosure of tax breaks worth 4.5 per cent of GDP annually is probably typical. Corporations have been able to capitalise on favourable regulatory and tax environments to squeeze wages so that income shares (the amount of GDP that is accounted for by labour income as opposed to corporate profits) have declined over time.

The relative 'shares' of public expenditure more generally are, as Chapter 4 revealed, difficult to calculate. However, private businesses clearly extract a huge amount of benefit, the majority of the benefit in some cases, of certain forms of public provision. After taking into account relevant benefits, the value of corporate welfare was estimated to be worth around 40% of total public expenditure (typically around 20 per cent of GDP).

Turning to social protection, an examination of the relative benefits that accrue to businesses and citizens varies. However, up to one fifth of social protection expenditure primarily benefits businesses in the economies examined here. Such provision includes wage subsidies, employment grants and help towards training costs. Significantly less than this in liberal economies, although in all economies, there is some degree of emphasis placed on business-centred social policies. Generally speaking, provision targeted towards corporations is lower in liberal economies than social democratic (or coordinated) economies. But so too is corporate taxation. Corporate taxation in the 2000s hovered around 6 per cent in the US, UK, Ireland and Canada, but it was more than double this in Sweden, Spain, Italy and France. It seems likely that corporate welfare offsets taxation in many states, but needs more investigation is needed here.

In terms of the balance between the two, the US, Ireland and the Netherlands place more emphasis, relatively speaking, on corporate welfare provision and least on social welfare (if we consider expenditure on social protection as a whole). Therefore, we might classify these as corporate welfare states. The 'social welfare states' of Germany, Greece and France lie at the other end of the spectrum. Between these extremes lie the social-corporate welfare states of Sweden, Denmark, Japan and Hungary. This classification aside, as the Introduction made clear, insofar as all welfare states contain elements of social and corporate welfare, it is more accurate to think of all welfare states as social-corporate welfare states.

The various ties between government and private markets have become invisible over time and, as Polanyi put it, the economy has become disembedded from society. The market is viewed as having a life of its own, independent of government and society, and this has eroded any notion of reciprocity between businesses on one side and governments and citizens on the other. This is especially true in liberal economies. The relative silence surrounding corporate welfare stands in stark contrast with the noise that surrounds social welfare. There is not even a widely recognised term to describe public provision for private businesses, and one of the key aims of this book has been to establish 'corporate welfare' as the most appropriate nomenclature. While unemployment benefit claimants are scrutinised, criticised and condemned, corporate welfare recipients remain hidden from the public gaze. While social welfare claimants are told 'no rights without responsibilities', corporations are under no such obligation. And while more and more seems to be asked of citizens, less and less is demanded of businesses. Indeed, even as a number of states embark on a new period of austerity, demanding wage cuts, cuts to social welfare, increased voluntarism and tax increases, businesses appear almost to be exempt from this. And, at the risk of repetition, part of the reason why they are exempt is that few people, business people included, appreciate the size of the benefits that they extract from the state and how little, in comparison, some corporations contribute. The solution seems obvious: corporations and their highly paid executives need to contribute more in order to earn the many benefits they receive.

Notes

1 Introduction: The Social–Corporate Welfare State

1. *Forbes Magazine*, 3 October 2010.
2. Denmark spent around 2.7 per cent GDP in 2005 compared with total spending on defence, public order, and housing and community amenities of 3 per cent that same year.

2 The Political Economy of Social–Corporate Welfare States

1. The actual medium- and long-term benefits to the individual may be close to zero, however, since employers are likely to reduce wages or keep them low in the knowledge that the state will provide additional cash benefits to its workers.
2. The issue of occupational welfare (social provision delivered to employees through employers) goes beyond this study, but it is worth noting here that previous studies have found that in countries with higher levels of state provision, occupational provision (and the share of the costs of occupational provision borne by employers) tends to be much lower. Farnsworth, K. (2004b) 'Welfare through Work: An Audit of Occupational Social Provision at the Turn of the New Century', *Social Policy & Administration* 38(5): 437–55; Greve, B. (2004) *Occupational Welfare: Winner and Losers* (Cheltenham: Edward Elgar).

3 Competing Interests within the Globalised Welfare State

1. SCM article 1.1(a)(1).22.
2. Article 1.1(a)(1), SCM article 1.1(a)(2).

4 Varieties of Support within Various Capitalisms

1. Based on data published by the UN in its *Human Development Report 2010*.
2. The OECD does distinguish between 'collective' and 'individual' expenditure. Collective expenditure is made up of capital expenditure and services that do not increase in cost terms with increases in demand.

5 Examining Corporate Welfare Programmes

1. See http://stats.oecd.org/Index.aspx.
2. BBC News, 2010 'Spain prime minister "stopped" Rolls-Royce contract', 5 December, http://www.bbc.co.uk/news/business-11921194.
3. Downloaded from http://www.goodjobsfirst.org/corporate_subsidy/dell.cfm March 2011.

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1. http://www.number10.gov.uk/Page18934.
2. http://www.imf.org/external/pubs/ft/survey/so/2009/NEW040309A.htm.
3. http://www.guardian.co.uk/world/2009/feb/05/buy-american-trade-war.
4. http://www.telegraph.co.uk/finance/financetopics/recession/china-economic-slowdown/5556913/Chinas-Buy-Chinese-decree-with-400bn-stimulus-package-risks-US-protectionism-row.html.

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