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Globalization and Social Spending: Lessons for India

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Abstract

As developing countries increasingly integrate themselves into the global economy, increased social spending is desirable to protect their vulnerable groups from rapid changes experienced by the economy associated with increased openness. However, while developed nations are largely successful in maintaining and increasing their social spending as a response to globalization, the case with developing countries is usually the opposite. We find that key determinants of this divergence between developing and developed countries stems from factors such as the extent of surplus and informal labor, quality of democracy and democratic institutions, and the power of unions. As India further integrates into the global economy, it can maintain its social spending by expanding its employment guarantee programs such as NREGA, and work to bridge the gap between formal and informal workers.

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1. Introduction

1.1 Overview

This thesis studies the impact of globalization on social spending in developing and developed countries and identifies how this impact differs across countries. In doing so, it delves into the reasons behind this difference in impact, and then applies them to the context of India. The aim is to provide lessons for India to maintain and increase its social spending as it continues to experience globalization as well as to define specific and actionable recommendations which are deeply informed by the Indian context.

1.2 Motivation

Global trade in the Post-War era has largely been concentrated in the Global North, however, over the past several decades, developing countries have been increasingly integrating themselves into the world economy. Developing countries have become major trade partners with not only developed countries but also other developing countries. Besides promoting export-oriented industrialization, many low developed countries (LDCs) actively attract foreign direct investment (FDI) in an attempt to gain from globalization.

Such gains from globalization are strongly emphasized, particularly by international organizations such as the World Bank and the International Monetary Fund (IMF). Promoting neoliberal policies of trade liberalization, openness to foreign capital, and domestic deregulation, these organizations claim that international openness would enable LDCs to gain access to new technologies and skills as transnational corporations (TNCs) establish operations in the host countries, bringing capital, creating employment, and increasing output. Many neoliberal policy packages comprising such globalization and liberalization measures, labeled as structural adjustment programs (SAPs), have been prescribed to LDCs in economic trouble as a condition for international assistance and funding.

However, globalization is a time of rapid change for increasingly integrated LDCs. The adoption of neoliberal policies has been found to create some level of harm on the economies and people of LDCs. Interlinking their supply chains with those of developed countries often allows recessions and fluctuations in the business cycle experienced by industrialized countries to be transmitted to developing countries. Moreover, structural adjustment policies often carried out in

LDCs to attract FDI have made the position of many vulnerable segments of the population, such as the poor, illiterate, and the elderly, even more insecure. As these countries grow and become an increasingly integrated part of the global economy, rapid urbanization, ageing populations, and other social changes have weakened the traditional safety net provided by family and community, necessitating formal social security measures.

Globalization will persist, and there is no point in making blanket statements such as 'globalization is good' or 'globalization is bad'. Rather, we must strategically guide globalization to ensure that it delivers the maximum amount of good while creating reinforcements for the negative consequences. As globalization may create greater insecurity for vulnerable groups, there is a need to provide safety nets, especially as traditional community-provided safety nets wither. Unfortunately, however, LDCs often have a weaker social net than do industrialized nations, and some evidence points to the fact that the social welfare and social security institutions of LDCs may not be able to handle the pressures of fiscal contraction posed by capital mobility and international openness, leaving vulnerable groups to fend for themselves. This may result in disastrous consequences for equity, poverty, and social stability.

A major emerging market, India faces all these challenges. With a high population growth, India is expected to be the world's most populous country within the next decade. Having begun token liberalization measures from the 1980s, and full-scale measures from the 1990s, India has had mixed success in protecting the economic wellbeing of its marginalized groups, and it is imperative to explain what aspects may be contributing positively or negatively to the changes in social spending. With over 73 million Indians living in poverty as of 2018, and many more in vulnerable conditions, how globalization affects social spending in India will have a profound impact on the standard of living, the quality of life, and economic security of a population greater than that of the entire United Kingdom.

Therefore, the aim of this research is to identify the causes behind the contraction of social security and welfare spending in LDCs and industrialized countries as a result of globalization. In doing so, it will highlight important political, economic, and institutional barriers to expanding protection for the vulnerable, and will identify lessons and develop recommendations for India to ensure that its vulnerable groups are well-protected and able to contribute in an increasingly open economy, and that India benefits from integrating itself into the global economy. This thesis is organized as follows. Chapter 2 is an overview of the literature related to the issues examined in this thesis. Chapter 3 discusses the rise of globalization in the developing world. Chapter 4 examines globalization and its effects on social spending in both developing and developed countries. Chapter 5 presents the lessons for India following an overview of the Indian context and Chapter 6 concludes.

2. Literature Review

This literature review is organized as follows. Firstly, the term 'social security' will be defined for the purposes of this paper and then this study will briefly consider the increasing level of integration of LDCs in the global economy, and the processes leading up to it. While the definition of the term globalization itself is up for debate, we can understand globalization in terms of international trade and capital mobility. Given the changes globalization has led to in many LDCs, this study argues that there is a need for increased social security and welfare spending by LDC governments to protect their vulnerable populations. Secondly, this study considers the level and type of social security and welfare spending that currently exists in LDCs and what social programs are particularly desirable in the context of the challenges and limitations faced by LDCs. Evidence brings to light declining social spending in LDCs as a result of globalization, and then this argument will be considered by appreciating the autonomy LDCs have in terms of determining their spending levels despite globalization pressures. This discussion involves the consideration of the internal economic, political, and social characteristics of a country which could result in an adverse effect on welfare due to globalization. Thirdly, these findings will be applied to the case of India and recommendations will be made for India to follow which will allow the country to protect its social spending for the benefit of its marginalized populations.

Literature involving social security and welfare does not completely agree on precise definitions of the two topics, and often studies them together under the guise of terms such as "social spending". There is no widespread agreement regarding what constitutes social security spending and what constitutes social welfare spending; both types of spending are often considered together. For the purposes of this study, the definition of social security used by Van Ginneken (2003, p. 279) is found to be useful: "benefits that society provides to individuals and households – through public and collective measures – to guarantee them a minimum standard of living and to protect them against low or declining living standards arising out of a number of basic risks and needs." Such spending covers both social insurance, a form of protection funded by compulsory contributions such as unemployment benefits, as well as tax-financed benefits, which are benefits paid out of tax revenues, such as a public food distribution scheme. This definition may go well beyond the definition of social security used by many other scholars as it is meant to account for all forms of public assistance to vulnerable groups. In the United States, for example, social security has a more restricted definition as the Social Security program refers to social insurance schemes only.

There is much literature about the increasing extent of integration of LDCs into the global economy. Marelli and Signorelli (2011) highlight the gradualist nature of the Chinese and Indian integration experiences which have to date resulted in markets with lower trade barriers and greater openness to foreign direct investment (FDI). Panagariya (2001) brings out the changes that have taken place in India; tariffs which once ranged from 110%-150% for most goods have come down heavily, and import licensing, which divided goods into four categories subject to varying restrictions, have been completely abolished. Considering LDCs as a whole, it can be seen that their share of global trade has gone up from less than 30% to nearly 45% from the years 2000 to 2015.

Khan (1997) points out the impetus for integration for many LDCs was the need for adjustment following imbalances to their balance of payments as a result of the 1970s oil crisis and the ensuing recession in industrialized countries which reduced demand for exports from LDCs. As a result, many LDCs began to experience economic trouble, especially problems with their balance of payments. Approaching international organizations such as the World Bank and the IMF for assistance, these countries had to accept to undergo SAPs as conditions for loans. SAPs included liberalization and globalization mandates, such as the reduction of tariffs and quotas, fiscal responsibility, and increased capital mobility. Khan further highlights the often adverse outcomes to growth, inequality, and poverty alleviation as a result of implementing policies towards openness. Pakistan, Bangladesh, India, and many Sub-Saharan nations are among the countries which have experienced such adverse effects; the East Asian nations were rare cases which did not experience a rise in poverty or inequality due to globalization. Khan blames the level of surplus labor and the consequent low output elasticity of employment and cutbacks in social spending as key reasons many LDCs face adverse outcomes, creating a justification for extensive protection to vulnerable groups through social security and welfare.

The type and extent of social security and welfare spending in LDCs will now be considered. While social security and welfare are generally considered the domain of industrialized nations, LDCs too have a duty to protect their most vulnerable individuals and groups from the vagaries of the market. However, due to a large proportion of workers employed in the informal economy, Van Ginneken (2003) argues that the ideal policies for LDCs often differ from the ideal policies of middle-income and industrialized countries. For example, unemployment insurance is not necessarily applicable to LDCs as the informal sector accounts for much of the employment in LDCs, creating informational barriers inhibiting the distribution of benefits and collection of taxes. Ahmad (1991) argues that important safety net measures for LDCs include employment guarantee schemes and pension schemes; the latter are easier to launch when the elderly comprise only a small portion of the population. Despite these possibilities, social security in LDCs like China and India is patchy and excludes the majority of the needy.

Scholars have expressed concerns that the competitive pressures of the international marketplace with its neoliberal leanings force integrating LDCs to compete with other countries to attract capital and encourage trade; these scholars conclude that welfare states in LDCs would tend to converge in their features through a race to the bottom in social spending, taxes, and labor standards. However, other scholars find this to be a simplistic argument and believe that internal economic, political, and social circumstances play a greater role in shaping social spending. The next section, therefore, is devoted to understanding how social spending in different LDCs responds to globalization pressures and what internal factors drive responses in particular directions. When considering the kind of welfare state established in many LDCs, Rudra (2007) finds three main types; productive welfare states, states which promote market development and the commodification of labor; protective welfare states, which are focused on protecting their citizens from the market; and dual-states, which have features of both. These findings provide evidence against convergence tendencies in LDCs. Ramesh (2004) takes this topic further and argues that the impact of globalization on welfare spending is varied, taking the example of East Asian countries, and that countries have agency over their response regarding welfare spending as a result of globalization.

These conclusions have been complemented by the work of Swank (1998), which found that there is no evidence to back up the hypothesis that business taxes have fallen in response to increasing capital mobility in advanced market economies. Rather, as Swank points out, business taxation has become subject to new market conforming rules which have been developed alongside increasing globalization. These findings go against the long-held conventional view that in the face of globalization, countries become less able to provide services and social democratic organizations and entities become worse off. According to Swank's work, market-conforming rules have involved maintaining the revenue generation roles of tax while reducing the economic management roles of the tax, for example, cuts in corporate profits tax have been accompanied by base-broadening in the form of elimination of investment reliefs.

Ramesh (2004) cites a study by Rudra (2002) which found that public spending on social welfare in 53 LDCs declined from 3.2% of GDP in early 1970s to 2.5% in the mid-1990s while during the same period, spending on social welfare rose from 12% to 16% in OECD countries. This study by Rudra (2002) considers the divergent outcomes between developing and developed countries in terms of changes in their extent of welfare spending as a response to globalization, and points to the importance of labor as a possible answer. Previous studies have considered various possible causes, such as the elderly comprising a greater proportion of the total population in industrialized nations compared to in developing countries; the elderly and similar situated interest groups are welfare beneficiaries and can successfully pressurize the government to protect welfare spending. However, labor is the primary interest group in LDCs and its lack of influence is unexplained by these hypotheses. Therefore, Rudra considers the case of labor and finds that the abundance of low-skilled and surplus labor creates collective action problems for labor, condemning them to a weak bargaining position. Rudra argues that unionization rates in developing countries are a poor indicator of labor strength as unions are often suppressed in many countries; she creates an index called Potential Labor Power (PLP), which considers the ratio of skilled to unskilled workers and the proportion of surplus labor in the total labor force. Rudra finds that variations in PLP can help explain the divergence in welfare and social security spending in LDCs compared to industrialized nations as a result of globalization.

Manning (1998) contributes to this discussion regarding the weak position of workers in LDCs. Poor worker education and awareness levels contribute to generating a weak bargaining position which workers cannot overcome; the extent of surplus labor makes bargaining less attractive as surplus laborers are most worried about securing a job with pay, without much consideration to benefits, at least in the early stages. This also explains the lack of social insurance offered to such employees. Also, unionization has not resulted in many rights for workers as disputes are often settled in favour of the employers in much of East Asia; Manning regards Taiwan and Korea as notable exceptions and argues that worker awareness and education, as in these two countries, can secure worker rights. Besides Taiwan and Korea, Indonesia, also a democracy, experienced significant improvements to labor protection after embarking on export-oriented industrialisation (EOI) growth as the initial poor conditions sparked concern and industrial unrest. On the whole, while autocratic governments are responsible for poor labor standards by denying labor rights and suppressing wages and the presence of democratic institutions helps preserve rights and higher labor standards, the willingness of the large number of surplus workers to work in such conditions has been a far more important contributing factor.

Ramesh claims that while the case of PLP can be verified to the extent it is corroborated by the cases of Hong Kong, Thailand, and Taiwan where negligible unemployment throughout the 1980s and 1990s coincided with an increase in welfare, there is no evidence available that labor was the key cause for the increase in welfare spending, except for in Korea; while Malaysia and Singapore experienced labor shortages, they did not benefit from an increase in welfare spending. Ramesh insists that scholars consider more deeply the various domestic and international factors at play. For example, recent works have begun to appreciate the importance of the political-economic institutional underpinnings of various countries, such as social-democratic or conservative. Furthermore, Ramesh points to the condition of democracy as an important indicator of the impact on welfare spending as a result of globalization; according to Ramesh, democratization in Korea and Taiwan since the 1980s has been an important driver to welfare spending expansion. A key complement to the rise in democratization is the rise in civil society, which tends to speak out for marginalized groups, including groups marginalized by globalization.

Rudra and Haggard (2005) considered further the impact of democracy or lack thereof on social spending in an environment of increasing international economic integration and openness using a sample of 57 LDCs. They provide a theoretical justification for democracies better preserving their social spending than other kinds of regimes; democracy involves competition between political parties which pushes policy towards the interest of the median voter, who is likely to benefit from some kind of welfare or social security spending. Their findings show that while democracies may not necessarily enjoy higher levels of social spending, they are more attentive to protecting their citizens' basic needs than authoritarian regimes in a time of increasing openness. Based on the results, countries were divided into three buckets: democracies, soft authoritarian regimes, and hard authoritarian regimes. In non-democracies, trade openness was found to have an adverse effect on social spending. In democracies, trade openness was found to have no effect; electoral competition and the presence of interest groups makes democracies more accountable to the interests of the poor and the elderly. Swank (1998) too found that business taxation was more affected by the size of the aged population, as well as the level of unemployment.

The idea that democracies must protect their citizens from the potential threats posed by globalization has major implications, as found by Rieger and Leibfried (1998). Their work argues that the stronger the pressures posed by globalization and the more open the economy, the more difficult it becomes for governments to adversely modify social spending. If governments respond to globalization by cutting social spending, special interest groups who view protectionism as the best alternative would organize to resist globalization. To maintain globalization, therefore, governments must ensure that losers from globalization are being duly compensated. Certain inherent criticisms of globalization make the maintenance of welfare spending desirable: the temporal precedence of losses to losers compared to gains to winners; the risk of a nation's welfare becoming politically dependent on external conditions which are outside the nation's control; and the risk to advanced nations emanating from wage competition with LDCs.

In democratic societies, welfare spending levels have earned a degree of primacy as state activity and social rights expanded throughout the twentieth century. The transformation of industrial societies into welfare states helped guarantee their international openness and helped make possible a much greater level of international division of labor. This is because the more one's subsistence depends on the market and the more the market itself is determined by external circumstances, people find protectionism a legitimate option; in the presence of a strong safety net, however, protectionism is superfluous. With a safety net to fall back on, people become less risk-averse in taking advantages of the opportunities presented by the market. The authors provide evidence by looking at the cases of the United States and West Europe; the United States is relatively less integrated into the global economy and therefore experiences a much broader capacity for change, as demonstrated by the radical change in the US welfare policy in 1996 which ended the right to welfare and posed restrictions on benefits. On the other hand, Western Europe comprises countries much more intensely internationally integrated; this high level of external pressure nearly prohibits major changes in the status quo of their social welfare spending policies. Meanwhile, Taiwan and Korea experienced leaps in their welfare spending alongside their major increases in international integration.

Rodrik (1998) also carried out a study along similar lines. A previous study by Cameron (1978) concluded that open economies have higher rates of industrial concentration, fostering unionization, more opportunities for collective bargaining, and ultimately, greater labor power. However, the study was carried out for only 18 OECD countries and labor institutions are not very relevant to LDCs. Yet, Rodrik's work found a positive correlation between exposure to trade and size of government spending in high-income as well as low-income countries. This highlighted the risk-reducing role governments must play as the price for its citizens to accept a higher level of risk. Rodrik considered general government spending as any specific types of spending may be applicable to only LDCs or only industrialized societies; a safety net involving social insurance is largely applicable only to developed countries due to the lack of administrative capacity faced by LDCs. To serve the same purpose of risk reduction, LDCs engage in programs such as public employment, in-kind transfers, and public works programmes.

Despite these findings, we can see numerous instances across the spectrum of LDCs where there has been, in some period, some adverse effect on social spending as a result of globalization. Considering the above-mentioned characteristics and features of countries which determine the direction and magnitude of the effect on social spending as a result of globalization, this study will now bring out the salient factors of the Indian context, and tie in together the literature consulted to devise meaningful recommendations for India which would allow the country to protect its vulnerable segments from the vagaries of the international market. Therefore, the circumstances surrounding labor power, democracy, and civil society in India are now considered.

While unionization rates and circumstances may not be useful guides to estimate the labor power in many LDCs due to the lack of democracy and the suppression of unions and worker rights, this is not necessarily true to the case of India. As the world's largest democracy, India is a truly pluralistic society with unions affiliated to political parties across the political spectrum and representing workers by engaging in collective bargaining. D'Souza (2008) claims that activism by unions has helped create overly protective labor regulation, which through amendments to the Industrial Disputes Act (IDA), has been applicable to even smaller firms. Of course, the picture is not entirely rosy, and analyzing the state of unionization and collective bargaining in India is an important step to understanding labor power. Hensman (2010) points out that there is significant legislation to protect formal workers but the majority of the workforce in India comprises informal labor, which does not enjoy labor protection and whose presence also weakens labor rights for all. Labor protection legislation deliberately excludes informal workers, and employers can creatively treat their workers such that they fall under the category of informal workers, thus denying them protection. Such assault on labor rights began well before globalization and liberalization measures and intensified under the right-wing National Democratic Alliance (NDA) coalition governments over time. Hensman concludes that the key reason behind an assault in labor rights has been the presence of informal labor, and any suspensions to this decline in labor rights, including the founding of the National Rural Employment Guarantee Scheme (NREGA), which guarantees poor rural households 100 days of work per year, has been the result of activism by left-leaning parties and entities.

Besides specific labor rights, it is important to consider the impact on marginalized communities in general. As in other LDCs, a key form of social protection in India comes in the form of public employment, especially secure rural employment. A study by Ganguly-Scrase and Scrase (2001) considers the impact of globalization on low-income workers in the Indian state of West Bengal and finds that globalization has been accompanied by contractions in secure rural employment, thus hitting hard those groups which already suffer from a general degree of marginalization and an inability to participate in lucrative international markets. Therefore, the structural adjustment programs imposed on India which called for a decline in public expenditure have indeed materialized in reduced social spending.

However, any further marginalization of the losers from globalization could be countered by an active civil society. Sahoo (2008) traces the development of civil society in India and claims that in the early days after Independence in 1947, civil society was largely the domain of the English-educated elite; a strong welfare state where the state assumed the role of provider, protector, and regulator of social welfare made for a depoliticised citizenry. However, as this role of the state reduced following liberalization and globalization in the 1980s onwards, civil society developed a new voice and started taking up causes previously left to the state. The number of non-governmental organizations (NGOs) grew significantly, and so did government spending on civil society, while many grassroots movements emerged. This mushrooming of India's civil society can be credited to its robust democratic apparatus which has allowed pluralistic non-government organizations to take up roles which are no longer the priorities of the government.

The literature suggests a variety of solutions which are further developed in this study. On a general note concerning LDCs, Ahmad (1991) points out that LDC social spending should be based on what households do to protect themselves and fill the gaps produced by the withering of traditional family security and the inherent risk pooling problems associated with community-based welfare, which refers to a decentralized system of social spending where the lowest levels of governance play an active role in the provision of social services. For example, village heads may identify and disburse welfare to the needy. Ahmad advocates for the use of employment guarantee schemes, which in India's case could be an expansion of the NREGA and similar schemes taking into account regional variables; Gunter and van der Hoeven (2004) echo the importance of employment programmes. Ahmad also advocates the development of a pension scheme when the proportion of the elderly is low, as initially contributions would exceed payoffs, ensuring the scheme starts off on a strong standing; this is applicable in India's case due to the large proportion of youth in the population. Ramachandran's (2010) analysis indicates the benefit of social democratic institutions in the country's political and economic landscape to protect welfare spending. Therefore, the Indian left must band together in order to protect social spending, be it the Left political parties, or trade unions. It was insistence by the Left which helped the NREGA to pass through and be implemented; such successes need to be repeated by further organization and lobbying.

While democracy is important and India has a robust democratic foundation as evidenced by the Economist Intelligence Unit's Global Democracy Index (2018) and Freedom House (2018) annual reports on India, democracy itself will not protect social spending without strong electoral competition across the political spectrum. This calls for parties to represent the marginalized groups and have their voice heard; only with strong competition will policy decision-making tend towards the interests of the median voter. Meanwhile, the role of civil society is important to counterbalance potential government failings and to protect certain groups who may not represent a significant vote-bank. Besides the government and civil society, the community is another vital institution which can extend programs at the local level. Integrating people into employment programs can be time-consuming, and even when implemented, many people may be left out for a variety of reasons. To practically ensure that all can benefit from social spending, the government can aid the growth of community-level programs which also reach informal workers, as Van Ginneken points out. However, many marginalized have no link to the labor market so tax-financed benefits will always remain important for many groups; community-level programmes can help in local identification of those unable to work and the indigent. Meanwhile, Indian democracy is by no means perfect and Hensman (2010) calls for a redirection of funding from the military to social welfare to further strengthen democracy.

The effective implementation of employment programs can work to reduce the size of the informal economy and empower workers to seek appropriate formal-sector jobs. This will extend protection to a greater proportion of workers, and based on Rudra's Potential Labor Power model, work to improve the collective bargaining power of all workers. Meanwhile, more robust and effective social democratic institutions can help bring genuine legislative and regulatory gains to workers and marginalized groups. With labor having greater awareness of their rights, these together can translate into expanded and more secure social spending, as experienced by democratic East Asian economies such as Korea and Taiwan.

Beyond recommendations for India, scholars point to a need for international coordination. In an environment of capital mobility, regulations and standards, including labor standards, in one country create impacts to such standards elsewhere. Therefore, India can stand to benefit if other

LDCs take stock of their standards and regulations too. Khor (2001) argues for the need of South-to-South coordination. Hensman (2010) calls for coordination among unions on an international level to secure benefits for workers across borders in tandem. He argues that unions worldwide must pressure their governments to incorporate a clause in World Trade Organization (WTO) agreements empowering the International Labor Organization (ILO) and to help countries improve labor rights and penalize those which do not do so. Work by Lee (2002) and Arifianto (2004), in relation to Malaysia and Indonesia respectively, highlight the merit of entire social security schemes targeted to informal workers. These are generic recommendations which must be taken in the context of the Indian scenario to create sound policy.

We then consider the unique context and characteristics of India in order to use the general recommendations provided by literature to provide specific suggestions for the case of India. Basole and Basu (2011) help us understand the rigid segmentation of workers in India between the formal and informal sectors and the wide discrepancies in the labor rights and conditions enjoyed by the two groups. How and why exactly these differences emerged is qualified by work by Dibyendu, Saha, and Sen (2013), which provides insight into the very protective labor legislation in India which applies to the formal sector. However, corporations have managed to creatively exploit loopholes such that the majority of the workforce finds itself in the informal sector or as casual workers in the formal sector, who do not enjoy the fruits of unionization or benefit from the protective labor legislation.

Work by Krishnamurty (2008), and Foster and Rosenzweig (2010) provide insight into the situation of surplus labor in India. They point to the low mechanization and small-scale nature of farming in India, which results in too many people cultivating too little land. These problems are compounded by the lack of non-agricultural employment opportunities in rural areas and the seasonality of agriculture, making even the dominant economic activity precarious for many. Poor bargaining power for the entire workforce can be partly explained by these surplus workers who provide an almost unlimited supply of labor in urban areas upon migration and do not pay attention to the conditions and terms of employment as their primary concern is just to find work. Saboo’s (2008) work provides insight into India’s civil society framework, which is robust as expected from a pluralistic democracy. However, civil society has not had paid much attention and consequently had little success in fighting for the rights of informal and casual workers.

We have previously mentioned employment guarantee and generation schemes; this is particularly notable in India's case, as India's National Rural Employment Guarantee Act (NREGA) guarantees 100 days of paid employment to every rural household in the country and is the largest employment guarantee program in the world. Using the works of Ghose (2011) and Azam (2012), we trace the beginnings of this pilot scheme, launched by law passed in 2005. These works help us understand that the nature of work involves work typically associated with such projects, such as construction and irrigation, and points to the strengths and limitations of the scheme. The scheme has raised wages of the rural poor, however, there are logistical challenges which are yet to be taken care of and corruption in the form of leakages has undermined the total benefit that can be provided. On the whole, however, this scheme has directed government efforts in the right direction to mitigate the effects o surplus labor and allow for rural development.

These works form the foundation upon which we draft recommendations for India, which also involves studying other works. Rengasamy and Sasi Kumar (2011) help us explore recommendations within the realm of the NREGA scheme. They identify that performance metrics such as the average number of days of employment offered vary significantly by state and urge a deeper analysis of the characteristics of particular states which affect performance. This work also helps us understand the need for sophisticated information technology infrastructure which stores and processes data to aid us in our understanding of the predictors of performance of the program. This finding applies to not only NREGA but also all other social welfare schemes. Dutta (2015) explores the state-by-state study of NREGA's performance further by considering two particular states and understanding the reasons for their varied performance under the NREGA. Key indicators are political commitment of governments to the program and the level of accountability of public officials towards citizens. Dutta also urges increases in participation of females and other marginalized groups to improve overall program effectiveness and accountability.

Advances in information technology have another role to play. According to work by Bertot, Jaeger, and Grimes (2010), India must empower beneficiaries of NREGA and other social schemes through the timely and accurate provision of information regarding the antecedents of the program and the beneficiaries' rights. E-government and social media can be effectively leveraged to provide information and effective redressal mechanisms. The other side of the equation, however, is the provision of digital literacy training so people can actually use these mediums, which can provide transparency into the functioning of the programs. Beyond digital skills, we must recognize that a key differentiator between an informal employee and a formal employee is the employee's skillset and how relevant those skills are in the current economic context. Unni and Rani (2003) point out the need to provide training and education to the marginalized, which can be accomplished through non-government organizations. Here, the local context must be respected; as many cannot afford the lost income associated with pursuing formal education, the dispersion of skills within families is a crucial means of training in India. Unni and Rani assert that these mediums of learning must be supported and complemented by government programs and actions by non-government organizations.

The review of the literature on this subject, therefore, provides background material allowing us to understand the situation regarding social welfare in LDCs, appreciate the unique circumstances India faces, and provide policy recommendations suitable for the Indian context.

3. The Rise of Globalization in the Developing World

While trade and capital flows have traditionally been restricted to industrialized nations, developing countries have increasingly been catching up and becoming active in the global economy. Activity between developing countries and developed countries has increased, as well as activity between developing countries. Data from the World Trade Organization (WTO) show that developing countries share of total international trade in goods increased by less than 30% in the year 2000 to over 40% in the year 2015 (WTO, 2016). Meanwhile, foreign direct investment (FDI) inflows into developing countries have increased by a factor of 20 from 1990 to 2017. The rise of globalization has occurred on the lines of neoliberalism, spurred by the fall of the Bretton Woods system, the fall of Communism, and improvements in transportation and communication technologies (Achanso, 2014). However, we seek to understand the driving force behind the rise of international integration among developing countries.

Developing countries have been integrating into the world economy since the 1980s and much of the impetus towards globalization in the developing world has resulted from the need to adjust balance of payments imbalances experienced in the aftermath of the oil crisis in the 1970s. During this period, the Organization of the Petroleum Exporting Countries (OPEC) instituted a planned decline in the quantity of oil produced in an effort to increase its push and raise the oil exporters' revenue. The resulting price increases created significant inflation and stagflation throughout the world, and in an attempt to cure the persistently high inflation, interest rates were raised significantly, which brought about an ensuing recession lasting into the 1980s. The 1970s were a time when many developing countries had taken loans from developed countries' banks and governments and the higher interest rates, coupled with the lower demand for exports to the same countries due to the recession, created major balance of payments imbalances and brought about difficulties in repaying the loans. Approaching international organizations such as the World Bank and the International Monetary Fund for assistance, the countries were subjected to structural adjustment programs (SAPs), which included a package of neoliberal policies collectively known as the Washington Consensus. These policies included liberalization and openness to international capital, as well as reductions in tariffs and other barriers to trade. As a result, many developing countries seeking assistance regarding their loans opened up to the global economy (Khan, 1997).

Yet, the argument that SAPs were 'imposed' on passive developing countries lacks nuance. In many countries, the demand for globalization and liberalization came from within, as was the case for India (Hensman, 2010). Home to a genuine bourgeoisie class, many Indians demanded opening up the economy, and such pressures came not only from international organizations but also from domestic politics (Ganguly-Scrase & Scrase, 2001). Liberalization and globalization processes and techniques varied across countries, in terms of their pace, scope, and extent. China and India, two countries in the international limelight, for example, were much more gradual in their transformations than member countries of the former Warsaw Pact (Marelli & Signorelli, 2011).

In China, reform began in 1978 from an inefficient state-run economy to an increasingly market-oriented one. Reform was deliberate and proceeded sequentially sector-by-sector. The 1970s and early 1980s witnessed agricultural reform, including changes to the collective system and the distribution of the excess production beyond the planned volume to households. Industrial reform came next, including profits and wages liberalization. Finally, China experienced greater openness to FDI, international trade, and China joined the World Trade Organization (WTO) in 2001. Reform in India, though gradual as in China compared to the former Communist countries, progressed in a very different manner; for one, reform in India began later and was never as intense as in China (Marelli & Signorelli, 2011). The Indian reform began in the 1980s and was piecemeal and incremental to begin with; it was of a more consequential nature as a response to the imminent balance of payments crisis in 1991. Like many other developing countries, India increased its external debt burden to the point that financing the burden became unsustainable; its foreign debt in 1990 was around US$64.4 billion, over three times the value of the foreign debt just ten years earlier. This foreign debt then crept into current account deficits, fueling a balance of payments crisis. Prior to reforms, India's heavy industry was a state monopoly and pervasive licensing stifled private activity in other industries. Tariffs were high; most ranged from 110% to 150%, peaking at around 400% for certain goods. However, today tariffs are much lower, and import licensing, once applicable to most goods, has been completely done away (Panagariya, 2001).

In today's neoliberal order, globalization has many proponents, who speak to the benefits of increased output and variety of goods, transfers in skills and technology, and increased productive efficiency, ultimately leading to higher incomes. However, there are also studies which find that globalization may exacerbate the differences in outcomes between winners and losers of a capitalist system by hindering efforts to compensate those worse off. Among other mandates, SAPs call for greater fiscal discipline by reducing public expenditure on social security, including public employment (Van Ginneken, 2003), as well as in agricultural subsidies which are crucial public measures in developing countries, where agriculture still employs a significant proportion of the labor force (Achanso, 2014). In South Asia, efforts to alleviate poverty have been greatly interrupted as a result of increased openness, resulting in a decline in the rate of poverty alleviation, or as in Bangladesh's case, an absolute increase in the proportion of the population living under poverty. Entire nations, as in Sub-Saharan Africa, have been marginalized by globalization, left behind suffering negative growth (Khan, 1997). Meanwhile, while globalization is per the Stolper-Samuelson Theorem expected to benefit the most abundant factor, this being unskilled labor in developing countries, and thus reducing poverty and inequality, empirical evidence suggests that the opposite has occurred in many developing countries (Goldberg & Pavcnik, 2007). This has much to do with the fact that the poor and unskilled communities depend significantly on government spending in the form of benefits, transfers, employment, and rural infrastructure. Any cutbacks in these services severely impact the welfare of the poorest groups.

While globalization undoubtedly can potentially deliver many positive outcomes, its negative consequences do have to be reinforced and some gains transferred from winners to losers. In the next section, we will explore the nature of social security and social welfare spending across developed and developing countries and how has globalization impacted such spending. These insights make clearer the effects of globalization on marginalized groups.

4. Globalization and Its Effects on Social Spending

We now move on to analyze and explain the effects of globalization on social security and welfare spending in developed and developing countries. First, however, it is necessary to provide a background of the nature of social spending in developing countries and its rationale. We start off by defining social security, a rather vague concept whose boundaries are not well developed. Social security and welfare spending are often spoken of together, sometimes collectively referred to as "social spending", and the remainder of this study will refer to social security and welfare spending as social spending. In some instances, social security may narrow refer to merely social insurance, whereas in some cases, social security and welfare may collectively also include tax-financed benefits. For the purposes of this paper, social security will be defined as follows: "benefits that society provides to individuals and households – through public and collective measures – to guarantee them a minimum standard of living and to protect them against low and declining living standards", as per the definition used by Van Ginneken (2003). Developing countries, which often face institutional and informational barriers to erect social security schemes as in industrialized countries, often create alternate programs such as employment guarantee programs and agricultural subsidies, which are meant to serve the same purpose of social security and therefore can be thought of as social security measures, thus fitting the above definition. However, it is hoped that the use of the phrase "social spending" can do away with the ambiguity associated with the definitions of social security and social welfare.

To further qualify social security, we highlight Van Ginneken's (2003) conception of social security. Social security is provided in a public or community not-for-profit context and its aim is protection of the vulnerable; this should not be confused with goals of growth or other macroeconomic objectives. Social security is essentially concerned with limiting household expenditure of beneficiaries on basics such as food and healthcare. The two main components of social security are social insurance, benefits provided in certain contingencies or capacity deprivations such as old age, and tax-financed benefits, targeted to the especially needy who may not have any contributory capacity or may be otherwise excluded from social insurance schemes (Van Ginneken, 2003).

This section will first consider the nature of social spending in developing countries, followed by a justification of why such spending is desirable in the cases of developing countries. We then identify the effects of globalization on social spending in developing and developed countries, gain insights into particular effects in specific regions, and finally explain the factors and characteristics of developing countries which may be responsible for an erosion of social spending as a result of globalization.

4.1 The Nature of and Need for Social Spending in Developing Countries

We begin this section by first understanding the general nature of social spending in developing countries. In general, social security and welfare programs in developing countries have narrowly benefitted those employed in the formal sector, who constitute only a small proportion of the population of developing countries. This also means that the truly needy are often left out (Leisering, 2009). For the excluded, the family serves as the main provider of economic protection, particularly for the elderly; this is a key reason why developing countries are often unable to reduce birth rates. Support for those with no family assistance comes in the form of community-level support and food welfare.

Research efforts by Rudra (2007) have identified three clusters of the type of welfare states there exist among developing countries. Some welfare states promote market development, and are labeled *productive welfare states*, whereas others are concerned with protecting select individuals from the market, and are labeled *protective welfare states*, while a few exhibit characteristics of both and are labeled dual welfare states. Productive welfare states promote participation in export markets and commodification of labor, which refers to the exposure of labor to the market in order to earn a standard of living. Governments of productive welfare states understand that while they need to give up some control of the economy in order to embrace international integration, the state-market relationship in complementary. Therefore, public intervention in such welfare states aims to enhance international market participation, and may emphasize education, healthcare, and relevant infrastructure. Protective welfare states, on the other hand, emerge in economies which have had a historical tendency to avoid exposure to international markets, preferring the decommodification of labor instead (Rudra, 2007).

However a country chooses to develop its welfare state, budgetary, institutional, and informational constraints become increasingly important in the case of low-income countries. This results in low-income countries initiating very different kinds of social security and welfare programs compared to middle-income and industrialized nations. For example, in the case of healthcare, many industrialized nations have achieved universal health coverage, while some middle-income countries are on track, such as Colombia, which favors a fast-track implementation, and Tunisia, which favors a more gradualist implementation. Low-income countries, on the other hand, do not benefit from free or even subsidized healthcare so community-based healthcare schemes have emerged.

Another common social scheme poor countries may face problems with is pensions. Pensions typically comprise three major contingencies: old age, disability, and survivorship. Problems arise with respect to contributions, contributory capacity, and payouts, as self-reported incomes of many in developing countries are much lower than actual incomes, and such countries often lack the institutional apparatus to identify the true level of earnings. Tunisia is an example of a country that has done well integrating self-employed people into statutory self-insurance schemes despite such barriers; reasonable income scales have been estimated for the self-employed, on whose basis contributions are decided. Getting around such barriers can be extremely advantageous as it is easier to launch pension schemes when the majority of the population is young, as in developing countries, which contributes more to the system than is taken away by the relatively few elderly. As ageing occurs gradually, the pension fund will be in a good position to bear the burden of the payouts at the later date. An example of a country which has been improving its pension system targeted to the elderly is Brazil, the largest economy in Latin America, a region of relatively well-developed social spending regimes among non-OECD nations. The minimum age to be eligible for benefits has been reduced, and poverty has fallen among the elderly and significantly improved family welfare.

Besides such social insurance measures, tax-financed benefits are also crucial components of overall social security measures in developing countries. Many people have no contributory capacity to social insurance schemes, so they rely on tax-provided social benefits. These benefits are often targeted to certain groups, such as widows, who often have no link to the labour market. Targeting is done through four main methods: income, indicators apart from income, community selection, or self-selection. There is considerable variation among countries regarding the share of responsibility for social welfare between local governments and the central government. However, it is argued that tax-financed benefits should be financed by the central government as central financing can smoothen out regional disparities in incomes, which is often the case among developing countries (Van Ginneken, 2003).

We do not highlight the importance of social programs in developed countries, as the definition and connotation of developed countries implicitly include the presence of a comprehensive social net. Therefore, a further discussion of the importance of social programs in developed countries is superfluous. Unlike developing countries, developed countries have the resources to run social programs and possess the institutional and informational infrastructure to effectively distribute social gains. Economically and socially developed, such nations are not hard-pressed to attract additional capital and trade flows, unlike their developing counterparts.

Now that we have discussed the general nature of social spending in developing countries, we move ahead with discussing the desirability of such spending in developing countries. This discussion is vital in the context of social security and welfare being traditionally associated with the industrialized world and developing countries being encouraged to embrace structural adjustment programs and extreme fiscal responsibility to benefit from growth in an increasingly globalized economy. In general, developing countries may experience significant inequities in income, as well as inequities in the accrued benefits of growth to different groups in society. Therefore, social security is often necessary to lead developing countries on a strategy of equitable growth and development (Ahmad 1991). Inequity may manifest itself in the form of labor standards, which may be far inferior in many industries in developing countries compared to their industrialized world counterparts. Besides poor wages, many workers in developing countries may have to endure poor physical working conditions and the lack of collective bargaining rights, while not enjoying the protection of minimum wage legislation. On the other hand, other workers, particularly in the public sector and the regulated formal sector, may enjoy respectable salaries with benefits and other perquisites enjoyed by workers in the industrialized world (Manning, 1998). While classical development theory claims that all workers would find themselves in secure, formal-sector employment and enjoy such benefits, this is often not the case in developing countries, as evidenced by the consistently large informal sector and surplus labor. The onset of structural adjustment policies may have even reduced the proportion of labor employed in the formal sector in many developing countries (Van Ginneken, 2003).

Such adverse effects to living standards and the precarity of the position of many as a result of globalization point to the increasing importance of social spending in developing countries undergoing major changes as a result of globalization. Globalization is often accompanied by other major transformations affecting a developing country, such as rapid urbanization, sectoral shifts in the economy caused by large-scale movements of workers from an agricultural-heavy rural area to manufacturing-heavy urban centers. These shifts can test traditional family – and community-provided welfare, which are the main sources of social security for those left out of formal social security measures. As workers migrate to the cities, the elderly, children, and others not in the labour force may not receive adequate care. Workers themselves are put under uncertainty as they leave traditional family agricultural or other rural jobs to find work in the cities (Manning, 1998).

Many social scientists have argued that liberalization and globalization policies can adversely affect marginalized communities in the form of uneven regional development and wage disparities, ultimately leading to widespread and increasing inequity. This can be partly explained by the incidence of foreign direct investment (FDI), which tends to concentrate itself in certain regions in a given country. For example, in China, the explosion of FDI has been largely restricted to the relatively richer eastern provinces. FDI can boost growth, however, if FDI is benefitting only a segment of the population which may be already relatively well-off compared to others in other regions, then FDI will only exacerbate regional inequality (Khan, 1997). A study analyzing the effect of liberalization policies on the standard of living of low-income salaried workers in the Indian state of West Bengal found that the overwhelming majority of respondents condemned such policies for benefitting only an already elite minority. The respondents further claimed a fall in living standards and real wages as a result of globalization. Such findings are not isolated to India; evidence from Latin America, the Middle East, Africa, and elsewhere has provided credence to the argument that market reform generally benefits the rich while further marginalizing the poor (Ganguly-Scrase & Scrase, 2001). Such circumstances make ripe conditions for political and social unrest, and developing countries must maintain social stability alongside market expansion. Today's rich countries did not pay much attention to maintaining social stability while they developed and grew, which led to unrest and creating the necessary conditions leading to World War I. Now, developing countries have a precedent in the form of the disastrous consequences that can occur as a result of social instability (Rudra, 2007).

The transformation to globalization in many countries were also accompanied by changes in the structure of employment, particularly in the manufacturing sector. In the periods before the onset of reform, employment in industry was structured such that the level of employment was far greater than needed to produce the volume of goods that was manufactured. Such a system, meant to offer a level of social protection, was not sustainable in the era of reform, and this surplus labour began to find itself unemployed once reform was underway. This phenomenon resulted in a very low output elasticity of demand in countries such as China, India, Vietnam, and Pakistan, leading to a "jobless growth" or even an increase in unemployment, lasting years after reform was initiated (Khan, 1997). These findings provide strong justifications for the creation of social security and welfare programs even in developing countries, especially those undergoing economic and social transformations related to globalization.

4.2 Effects of Globalization on Social Spending in Developing and Developed Countries

We have highlighted how developing countries can benefit from social spending, particularly in times of change associated with globalization. However, what is the effect of globalization itself on social spending? This section details the analysis of globalization on social spending in both developed and developing countries, based on theory and evidence. These findings will enable us to determine the reasons behind particular patterns of social spending in developing countries as a result of globalization. This study is crucial to analyzing these reasons as it allows us to proffer informed policy options to ensure robust social spending to protect the marginalized groups in society. We first present two theoretical viewpoints: the strong globalization hypothesis and the related diminished democracy hypothesis. We then present findings from empirical studies to show how these hypotheses are validated – and challenged depending on the circumstances. Finally, the insights gleaned from this subsection will be enriched by the analysis presented in the next subsection, which will highlight region-specific patterns and trends. Together, these findings will help us understand the reasons behind the effect of globalization on social spending, which will be discussed in the final subsection of this section.

Firstly, the ‘strong globalization’ hypothesis is put forward by many scholars to predict the effects of globalization on a country’s domestic policy. This view has emerged and gained traction since about the early 1980s and it posits that increased openness constrains government spending and increased capital mobility constrains tax goals (Rudra & Haggard, 2005). According to this hypothesis, capital mobility creates pressures to reduce business tax to attract foreign capital and foreign direct investment (FDI). The globalization of capital markets has made capital very powerful and any goals of redistributive taxation simply cannot be reconciled with the goals of attracting capital from abroad (Swank, 1998). The global economy is dominated by uncontrollable global forces where transnational corporations (TNCs) are the principal actors with agency who can choose to relocate whenever and wherever they so choose (Yeats, 2002). Besides capital mobility, increased trade integration also leads to similar situations as pressures to facilitate trade competitiveness emerge.

In a world of footloose capital, countries compete with each other to offer the most attractive conditions and circumstances for capital. Countries engage in a bidding war in a ‘race to the bottom’ by offering fewer protections to labor and labor standards, minimal tax burdens, and other policies aligned with business interests. The hypothesis argues that there is convergence among countries in their domestic policy as a result of the race to the bottom. To accommodate a reduction in taxes, governments must give up their ability to provide public services and social rights. Being the domain of social democratic parties and unions, these bodies are likely to lose influence (Swank, 1998). Conventional wisdom dictates that markets are driven by a neoliberal agenda, and governments must appease such an agenda to continue to attract capital and keep themselves in the good books of the market (Yeats, 2002). Therefore, governments would stay clear of redistributive programs and other interventions of which the market does not approve, as such welfare benefits are not considered good market-discipling devices on labor (Rudra, 2002). This marks the decline of social democratic politics upon which the welfare state is built.

This leads us to our second and related hypothesis, the ‘diminished democracy’ hypothesis, according to which the government loses significant control of domestic policy to appease to foreign parties. This perspective is a natural consequence of the strong globalization hypothesis. Ultimately, the two hypotheses together argue that universal welfare systems are gradually replaced by selectivist welfare states, states where the government plays a much reduced role in the provision of welfare (Yeats, 2002). In general, the market considers only education as an acceptable form of state support (Ramesh, 2004). Therefore, selectivist welfare states are those likely to intervene to the extent of providing goods and services to improve human and physical capital.

What does this theoretical background imply for the future of welfare states? Are welfare states destined to crumble under the weight of globalization? Significant empirical evidence shows the contrary, however, but it largely concerns industrialized countries. Empirical studies conducted by Garrett (1995) and Swank (1998) have found no systematic decline in taxes and welfare spending due to globalization (Ramesh, 2004). Even as capital has become more mobile and countries more inclined to attract capital, business tax burdens in OECD countries have been maintained or even slightly increased in the wake of the globalization of financial markets. Countries have developed new 'market-conforming' rules for business taxation which give less importance to the economic management functions of tax policy while leaving intact its revenue-generating roles.

This can be witnessed by the increase in social security and payroll taxes throughout the 1970s, designed to enable the expansion of welfare benefits. While tax reform in the 1980s in the United States, United Kingdom, and other advanced nations resulted in the reduction of corporate taxes, reform also included base-broadening, for example, through the elimination of investment reliefs. Such reforms have been instituted to work towards two key principles: the net change in tax proceeds as a consequence of the reform should be revenue-neutral; and specific targets for elimination, once seen as necessary to attract investment, were now on viewed as inefficient (Swank, 1998).

In fact, a body of research studies shows how globalization is supported by the presence of a robust welfare state, and how the two reinforce each other. Globalization and social welfare can be viewed as complementary; social protection is essential for trade and investment liberalization, as in the absence of such protection, political groups would emerge to oppose globalization and call for protectionism (Reiger & Leibfried 2003). Even this research for the most part, however, concerns industrialized countries, and the scarce research devoted to understanding the dynamics at play in developing countries finds more severe impacts to social welfare (Ramesh, 2004).

Geoffrey Garrett challenges the notion of the crumbling welfare state under the pressures of globalization; he argues instead that international integration induces greater government spending on redistribution to compensate for the inequities generated through the market process (Rudra, 2002). Evidence from Western Europe shows that there has not been any radical dismantling of the welfare state in response to globalization pressures. In fact, welfare states are most robust and least likely to erode in more open countries with stronger globalization pressures. Meanwhile, Rieger and Leibfried (1998) further argue that more radical changes to the institutional structure of social policy are more likely in countries with less intense international links and lower national dependency on world markets.

This corroborates with historical experience if we analyze the growth of globalization in the post-war era. We need to better understand the role played by the institutions of social welfare in developing international openness on a large scale. The institutionalization of income maintenance programs introduced after World War 2 allowed governments to undertake free trade policies. It was due to the Great Depression that the welfare state was born after World War 2 and contemporary economists and political scientists agreed that the rise of the welfare state as the new social order of the industrialized democratic world would allow the global economy to return to the levels of international integration that were prevalent at the eve of World War 1.

Structures of social policy in heavily globalized economies have contained movements and trends arising out of globalization, bringing about a certain level of stability to the degree that such structures could viably replace protectionism. When interest groups feel threatened by reforms to the welfare state or economic insecurity as a result of globalization and liberalization, coalitions develop to call for protectionism and resist domestic deregulation. The more individual subsistence is dependent on the market, such as the commodification of labor, and the more market outcomes are determined by external events, the more individuals become risk-averse. In such cases, protectionism is a very appealing alternative. However, if there is an expansive social safety net to smoothen the blow which serves as an alternative means for subsistence without dependence on the market, then protectionism is superfluous and serves no purpose. Therefore, the establishment of a welfare state can be seen as crucial to maintaining broad support for international integration and maintain a high level of international division of labor. This has become particularly important as the primacy of national welfare has become ever more pronounced throughout the twentieth century.

Rieger and Leibfried (1998) present evidence from the United States and Western Europe to support their argument that with increasing economic openness and integration, social policy is less likely to wane as governments have lesser freedom to alter it. The United States was able to radically change its welfare policy in 1996; reform involved the end of welfare as a right accompanied by restrictions on benefits. This shows how a country experiencing a relatively low level of globalization pressure is able to make major changes to its social welfare programs. Meanwhile, the high level of external pressure experienced by Western European nations significantly affects their ability to undertake any such radical changes (Riger & Leibfried, 1998).

Rodrik (1998) contributes to this discussion and believes that government expenditure serves the purpose of providing social insurance against external risk. Societies demand and receive an expanded role by the government as a price for accepting a larger external risk. If government expenditure is sizeable and consistent, it can help mitigate some riskiness in household income due to external shocks. A study by Cameron (1978) involving 18 rich countries found that more open economies have higher rates of industrial concentration, which helps foster higher unionization rates and greater scope for collective bargaining, resulting in larger demands for government transfers. However, such studies, and the theory developed to explain such findings, are for the most part applicable only to industrialized countries, and therefore may not be applicable to the case of India. The adverse impact of openness on welfare spending has been identified in the case of poor countries, including, with respect to some measures, India.

The theory that developing countries are expected to converge on neoliberal policies in a race to the bottom is evidenced by the negative correlation between expanding international markets and social spending. In the interval between the early 1970s and mid-1990s, social welfare spending in 53 LDCs declined from 3.2% to 2.5% of overall gross domestic product (GDP). During the same period, Organisation for Economic Co-Operation and Development (OECD) countries experienced a corresponding increase in their welfare spending from 12% to 16% of GDP

(Ramesh, 2004). The case with LDCs applies to India too, where the policy in the 1980s and 1990s emphasized fiscal contraction. For example, gross capital formation in agriculture amounted to 4.2% of the agricultural GDP in 1979, and steadily fell to 1.6% in 1989, before somewhat recovering to 3.7% in 2006 (Ramachandran, 2010). These findings, while complying with the strong globalization and diminished democracy hypotheses, conflict with the Stolper-Samuelson Theorem, which predicts that unskilled and low-skilled workers in developing countries should benefit from trade and openness. As low-skilled workers are likely to benefit from welfare, the cutting back of welfare harms such groups the most. Therefore, the strong globalization and diminished democracy hypotheses must be given consideration when evaluating social spending effects in developing countries, even though thee experience of developed countries renders these hypotheses largely questionable.

Particularly in developing countries, public and private expenditure are complementary. State withdrawal from public programs of employment and infrastructure harms the countryside by removing key avenues for growth and poverty alleviation. This withdrawal has greatly affected the amount of employment people get in rural India. Many of the backward classes have been adversely affected by contractions in rural employment. These classes are far worse off as their marginalization anyway precludes them from gaining access to lucrative markets, and so they required government assistance in the form of employment to secure a certain standard of living (Ganguly-Scrase & Scrase, 2001).

A key form of social support in India is the Public Distribution System (PDS), the government-run subsidized food program and a lifeline to millions. The period of openness and globalization has been associated with a narrower targeting of the PDS, which has excluded many genuinely needy former beneficiaries. Moreover, agricultural food subsidy has declined around 2006, after being steady since the 1960s, as a percentage of GDP. As shown by evidence, India has witnessed some level of decline in its social spending, however, there have also been some success stories, such as the passage and implementation of the National Rural Employment Guarantee Act (NREGA), a job guarantee scheme which has been implemented in a phased manner in many parts of rural India. While the NREGA has been criticized for many cases of non-payment of the mandated benefits and the restricted type of work available, it is a step in the right direction (Ramachandran, 2010). In general, therefore, India's experience calls for some understanding of the strong globalization hypothesis where social spending is reduced to discipline markets, however, a nuanced perspective is called for given the implementation of the significant NREGA schemes.

This divergence in the impact on welfare spending as a result of globalization raises questions about the characteristics of developing and developed countries that determine the level of social spending. Gaining insight into these factors can help developing countries and their people in identifying policies to protect social security and welfare. The next section will discuss findings from particular regions, followed by a discussion of the factors determining social security and welfare levels.

4.3 Globalization and Social Spending – Insights from Particular Regions

This subsection explains the association between the increasing extent of globalization and social spending in particular regions, specifically East Asia and South Asia. We hope that differences in the effect on social spending as a result of globalization within and between regions will shed light on the causes of the divergence between developed and developing countries with respect to changes in social spending as a result of globalization identified in the previous section.

As many East Asian countries opened up to the global economy by embarking on a path of export-oriented industrialization, they experienced an unprecedented shift from agriculture and the informal sector to the manufacturing sector in urban areas. Urban areas witnessed high levels of migration and labor was always available for the growing manufacturing sector. Quite possibly due to this surge in surplus labor, wages rose very slowly at first and improvements in labor conditions and labor rights lagged behind even wage growth. This experience of East Asian countries provides lessons for India, as well as other countries, that even a sudden growth and compositional shift in industry will not quickly raise wages (Manning, 1998).

Laws restricting collective bargaining and unionization rights of workers have exacerbated the suppression of wages and work conditions in many parts of East Asia, leading to disputes in many countries being settled in favor of employers. However, notable exceptions include the democratic nations of Korea and Taiwan, where workers have managed to secure improvements in protective worker legislation and union freedom. These countries also enjoy higher education and income levels than many others in East Asia, highlighting the importance of worker education and awareness to worker protection. In terms of social spending, Korea and Taiwan have also managed to achieve universal health coverage due to their political commitment. This was made possible due to their high level of democratization, urbanization, and high proportion of employment in the formal sector (Van Ginneken, 2003).

These countries did not start off this way. Korea began pursuing export-oriented industrialization as an authoritarian regime in the 1960s, at a time when labor conditions were harsh and union activity was controlled. Only from the 1980s onwards, when Korea embarked on a path of democratization, were labour protections reformed. At the same time, Korea experienced a restructuring of employment away from relatively low-skilled labor-intensive manufacturing towards high-tech machinery and chemicals. Another example is Indonesia, which too experienced major changes to labor protection, such as a more than doubling of the minimum wage, during a time of export-oriented industrialization and democratization. These changes emerged as a response to industrial unrest and growing concern over labor conditions. Consequently, Malaysia began its strategy of export-oriented industrialization with labor conditions not as harsh as in Indonesia or Korea. However, labor conditions and rights were not improved over time in Malaysia. These observations point to the importance of democratization in determining the direction and intensity of social spending in developing countries (Manning, 1998), and therefore, ensuring that democratic institutions maintain their integrity is vital to protect labor rights and conditions.

In countries in South and East Asia which began much of their liberalization and globalization later, there were different consequences of globalization. While many South Asian countries enjoyed sustained poverty alleviation before embarking on a path towards globalization, poverty rates flattened or even rose soon after policies encouraging globalization, often through structural adjustment programs, were implemented. India enjoyed significant poverty alleviation from the 1960s, but this markedly slowed when globalization reforms began in the 1980s. Bangladesh actually experienced a rise in poverty level once trade reforms gained momentum in the 1980s, after many years of falling poverty. Poverty rose even in Pakistan in the late 1980s after structural adjustment policies encouraging trade were implemented.

This trend was not isolated to South Asia. China began systematic reform focusing on rural areas from the late 1970s and achieved a dramatic decline in poverty levels. However, once China began reforms focused on trade and globalization from the mid-1980s onwards, the pace of poverty alleviation declined sharply. This has much to do with the very low absorption of labor in new industrial enterprises. As a form of social protection, many state-owned enterprises provided employment to far more than was needed to achieve the necessary production. Once state-owned enterprises gave way to private enterprises, this form of social support evaporated and was not replaced by other forms of support. This was seen in India and Pakistan as well, where there was virtually no employment growth in the 1990s even though output grew (Khan, 1997).

Disruptions to poverty alleviation and employment point to inadequate social spending throughout South Asia. For example, in India, informal workers receive virtually no social insurance or other forms of state protection. State-level pensions reach only a small fraction of the entitled. Eligible claimants often lack information about programs and how to claim benefits and corruption and bureaucracy take their toll on benefits given out. In China, as in India, informal workers are excluded from social insurance schemes (Ahmad, 1991).

Among developing countries, Latin American nations are the ones which benefit from relatively sophisticated social spending measures to cover vulnerable populations. Those Latin American nations which have managed to extend social insurance coverage beyond the formal sector, such as Chile and Costa Rica, tend to be those with a modern and unionized rural workforce. Brazil is another example of a Latin American nation attempting to improve its pension system. Reforms to the pension system have already positively impacted family welfare, particularly in rural areas (Van Ginneken, 2003).

4.4 Determinants of Social Spending in the Face of Globalization – Explaining the Divergence

The last two sections have shed some light on why social spending responds in different ways to increasing levels of globalization in different countries and regions. Recurring themes include differences in the levels of democratization, varying levels of surplus labor, and unionization levels across countries. We now use the insights gathered from literature and the previous sections to identify and explain the determinants of the direction of social spending as a response to increasing levels of globalization. These determinants are interdependent of each other and together create a cohesive picture of the impact of globalization on social spending, which can then be applied to the case of India to create recommendations.

The focus of political science studies often center on labor, and an important difference between developed and developing countries which is thought to affect social spending is the extent of surplus labor in the economy. A large proportion of surplus labor in the economy drives down wages, conditions of work, and labor law as surplus, underemployed workers are more concerned with merely finding work and weaken collective bargaining structures (Manning, 1998). In the same vein, another crucial variable is the proportion of informal labor in the economy. Many types of social spending which are based on labor can function only when the majority of workers are employed in the formal sector. An example is social health insurance, as evidenced by the cases of Korea and Taiwan, which were able to launch such schemes only when they attained a highly formalized and urbanized labor force and a generally developed economy. Another example is pension schemes; low-income and even middle-income countries characterized by a high level of informal employment and unreported self-employment, and associated tax evasion, find it difficult to initiate such programs in a logistical sense as they simply cannot estimate the true level of incomes (Van Ginneken, 2003).

The problem of surplus labor leads into the broader problem of collective bargaining and unionization. What is crucial is not just the unionization rate, which varies significantly even within developed countries and is not particularly meaningful, but also the nature of unionization. The mere participation and existence of unions does not guarantee effective union strength as in many countries, unions are unable to meaningfully engage in collective bargaining. One key reason is the education and awareness levels of workers. Low-skilled workers are difficult to mobilize due to their low education levels and the often erratic hours worked (Ramesh, 2004). Low education and awareness levels also make it easier to suppress union integrity and independence. The cases of Korea and Taiwan again demonstrate that improvements in worker education and awareness were major causes behind genuine demands for stronger unions and better conditions, which noticeably boosted social spending and labor rights (Manning, 1998), and stronger labor confederations lead to greater demands for government transfers (Rodrik, 1998).

The other key factor behind the effectiveness of unions to reach their desired aims is the level of independence allowed by the union, and more generally, the democratic and legal framework under which unions can legitimately negotiate (Manning, 1998). This leads into a broader discussion about the importance of democratic institutions and the respect for democracy among governments. While labour is in important determinant of social spending, it is not the only important factor as in many countries, increases in social spending cannot be attributed to labor; meanwhile, certain countries with an educated and generally scarce labor force still are unable to achieve any increases in social spending. Understanding the role played by democracy and democratic institutions helps us solve another piece of the puzzle (Ramesh, 2004).

Empirical evidence shows us that social spending in developing countries is much more sensitive in the face of globalization in authoritarian regimes than democratic ones. There are several reasons for this. Democracy involves electoral competition which means that policy converges to the interests of the median voter, who is very likely to benefit from some kind of social spending. Furthermore, democracy is associated with greater redistribution and the provision of public goods, which maintain even during globalization pressures (Rudra & Haggard, 2005). Parliamentarization has allowed the use of political means and institutions for economic ends. In a democratic environment, where everyone has one vote regardless of their socioeconomic situation, political institutions are forced to take into account the needs of vulnerable classes (Rieger & Leibfried, 1998). Even democratic environments headed by strong neoliberal agendas, such as Thatcher's Britain and Reagan's United States found it difficult to cut back social spending beyond a certain point (Swank, 1998).

Besides the idea of democratic institutions, what is also considered to be significant is the general ideological underpinning of political institutions and policymaking and where policy falls on the political spectrum. For example, societies with social democratic underpinnings are believed to respond differently with respect to social spending than societies with more conservative underpinnings. The importance of institutions is a reflection of a broader acknowledgement of the influence and agency of domestic factors in determining the impacts on social spending as a result of globalization, a refutation of the Diminished Democracy hypothesis discussed earlier. What tends to matter is how much nations are interested in taking care of their vulnerable groups vis-à-vis encouraging globalization and what incentives they are faced from each direction (Ramesh, 2004).

Incentives in support of social spending, as an extension to the importance of democratic institutions, come in the form of a strong civil society, which is a hallmark of a democratic nation. Civil society consists of grassroots movements as well as stablished non-government organizations and often speak out for groups marginalized due to globalization. Such groups can pressurize the government to maintain, and even increase, social spending in the face of globalization (Ramesh, 2004). Quite related is the pressure of interest groups. Democracies provide more space for the organization of diverse interest groups to be heard. While different interest groups have different objectives, it is the elderly who are particularly vocal about preserving and expanding social spending. Therefore, democratic countries with a higher proportion of the elderly in their population are even more likely to act more to preserve social spending (Rudra & Haggard, 2005) and more strongly resist reductions in taxes which fund such spending (Swank, 1998).

Building off a point previously mentioned, another important determinant of how social spending responds to globalization is the current level of globalization itself. While the current level of globalization may not have a direct relation with whether a country is developing or developed, it is important to note that developed nations are more likely to be integrated into the international economy as the developing world is still catching on. This is a very broad and crude generalization as variables more likely to matter include size; a small nation is more likely to be integrated into the global economy. However, given that the importance of the current extent of globalization and its effect on social spending is acknowledged in literature, we have chosen to include this here.

According to a study by David Cameron, more open economies are associated with greater rates of industrial concentration, which is conducive to higher unionization levels, taking us back to our argument about unionization and its impact on social spending. However, there are also more direct reasons for this relationship (Rodrik, 1998). Increased integration results in the economy being increasingly reliant on events and occurrences outside its control, by which the economy becomes more vulnerable to external shocks. This increased volatility raises demands for government action in the form of social spending as any fluctuations in household income resulting from external events can be compensated by government intervention. Particularly in pluralistic, democratic environments, the government is compelled to provide security as a cost in order to win the acceptance for globalization. As increased levels of globalization are considered widely beneficial, this cost of providing security to citizens is a worthwhile investment as, in the absence of such redistributive measures, interest groups opposing globalization and demanding protectionist policies will appear. The provision of social security to encourage globalization is a means to avoid calls for more protectionist measures (Rieger & Leibfried, 1998).

When a safety net is provided, increased levels of globalization can be seen as opportunities as opposed to threats. High levels of social spending reduce opposition to globalization and are key in facilitating high levels of openness, as has been the case in the Post-War era. Moreover, quite as a result of high levels of openness, the levels of social spending become 'sticky'; they are increasingly hard to touch. It is important to note that such observations apply to nations with other favorable attributes to the maintenance of social spending: democratic institutions, labor power, and developed economies. Yet, even within this space, it can be seen that the effect of openness plays a major role. Germany and the United States, two major industrialized, democratic nations, differ in their level of openness, with Germany being the far more open economy. Between these two countries, Germany enjoys a higher level of social spending with a stronger structure of social spending; in the United States, on the other hand, interventions in the institutional structure of social policy are more likely (Rieger & Leibfried, 1998).

5. Lessons for India

We will now consider the above determinants of social spending and apply them to the case of India with the objective of allowing India to maintain its social spending as it continues to integrate itself into the world economy. This section will be divided as follows. First, we will collate the recommendations as per the previously cited studies and papers. Second, we will further describe the Indian context with respect to the determinants of divergence in social spending between developing and developed countries; this will help us identify where India stands with respect to developing countries as a whole. Third, we will tie in all of the above and create recommendations for the case of India.

5.1 General Lessons

As developing countries often lack the institutional and informational base to launch widespread social programs similar to those in developed countries, recommendations catered to developing countries regarding their social spending often involves different dimensions such as direct employment creation and assistance to marginalized groups with a view of placing them in a position from where they would be able to take advantage of the opportunities available in an increasingly open economy. Indeed, ‘conventional’ methods of protection such as unemployment insurance are typically relevant only for middle-income and wealthier countries which have a large proportion of their workforce employed in the formal sector (Van Ginneken, 2003).

Employment guarantees are often suggested in relation to developing countries, with an alternate option based on local targeting for those unable to work or the indigent. Since targeting may be difficult in developing countries where information about people cannot be accurately verified, these employment guarantee programs are often recommended on a self-targeted basis through relatively low wages and unskilled work (Ahmad, 1991). These schemes have a significant advantage in that they serve as buffer programs for people who are trying to adjust to a swiftly changing economy which requires different skills and offers different work environments (Rudra, 2002).

Employment guarantee programs are crucial for the rural poor who are the most likely to suffer from any reduction in government spending as such reductions often target secure rural employment. Socially disadvantaged groups such as women also depend on these schemes as finding employment elsewhere may prove very difficult. Their general marginality in society poses barriers of entry into lucrative industries and employment guarantees can give them a much-needed head start (Ganguly-Scrase & Scrase, 2001). Such schemes work towards the longer-term purpose of commodifying labor so workers can seek lucrative employment opportunities in an increasingly globalized economy. Given Rudra’s distinction between protective and productive welfare states, Rudra advises that nations can develop more efficient social spending schemes if they focus on commodifying labor; employment guarantees are a strong step forward (Rudra, 2007).

The commodification of labor goes hand-in-hand with the provision of skills and development of human capital to the end of equipping people with the skills and traits needed to succeed in an increasingly globalized economy (Gunter & Van Der Hoeven, 2004). A steady expansion in skills over time will allow the country to serve as a useful skill ladder for TNCs; this will help ensure that workers enjoy better working conditions and consequently improved labor rights. Factors such as poor worker power and poor labor laws and standards are often derivatives of low worker awareness and skill levels so providing education and training to make workers more productive will help workers access better working conditions (Manning, 1998). Workers should be trained in such that the skill divide between developing and developed nations is bridged and skills in demand globally should be stressed upon, particularly digital and technical skills. This goes along with the provision of such skills and a higher quality of education at lower levels too, such as primary education (Gunter & Van Der Hoeven, 2004).

As low-income countries lack the necessary information and institutions to disburse appropriate social spending to needy groups, commentators highlight the role of community action and programs implemented at the community level and encourage governments to support such programs. This occurs, for example, in the case of healthcare. As poor countries lack universal health coverage, community-level health insurance schemes have sprouted and governments can support and build off such schemes. Community-based schemes are also recommended to target social spending to workers in the informal sector as more information about their incomes and work conditions would be available to members of the community as opposed to governments. Microfinance, for example, is a popular intervention to assist informal sector workers and governments can provide assistance and partner with microfinance organizations (Van Ginneken, 2003).

Commentators also call for interest groups to voice out their demands to maintain social spending, particularly the elderly and their supporters who carry an ever-increasing influence as countries age. Such interest groups should mobilize and support left-leaning organizations and political entities which advocate for social spending. Civil society in general must follow suit too (Ramesh, 2004).

Finally, there is an international dimension to the recommended policy landscape. The problem of developing countries facing an adverse effect to their social spending as a result of globalization is a general effect and not isolated to any one country. This is to some extent a reflection of the power imbalances between developing countries and TNCs, as supported by the Strong Globalization and Diminished Democracy hypotheses; there needs to be, therefore, coordination among developing countries in terms of policymaking to fight such converging tendencies as the two hypotheses suggest (Gunter & Van Der Hoeven, 2004).

International organizations are increasingly becoming involved in the realm of social spending. Traditionally the preserve of the International Labour Organization (ILO), social spending as a concern has since the 1980s been a topic of discussion even among the World Bank and the IMF. This presents an opportunity for international mobilization among unions to preserve their common goals and pressure their governments simultaneously to bring about action (Ramesh, 2004).

India can also learn from other countries in similar situations. For example, Indonesia has begun reforming social security through the National Social Security System Law passed in 2004. Notably, this scheme, known as Jamsosnas, will cover every citizen in Indonesia, including informal workers. The scheme calls for mandatory contributions shared between employers and employees totaling around 18% of the salary of a formal worker and a smaller percentage of the salary of an informal worker as the former are expected to subsidize the latter. There are various agencies which cover different aspects of social security such as pensions and healthcare, and an entire agency will be dedicated to the provision of social security to informal workers. An admirably comprehensive effort to provide security to vulnerable groups, Indonesia provides an important lesson for India. However, such programs come with logistical challenges including the means of collection of the contribution from informal workers (Arifianto, 2004).

Meanwhile, Malaysia operates the Workmen's Compensation Scheme, an injury coverage scheme designed specifically for casual workers who are not covered by formal social security. This includes coverage for foreign migrant workers, who form a large proportion of informal and casual workers in Malaysia. Under this scheme, workers are eligible for medical and rehabilitation benefits for injuries arising out of their job tasks. India has much to learn from this scheme, given that many informal workers in India are domestic migrant workers, with a small number of migrant workers from Nepal. The Malaysian Social Security Organisation (Socso) emphasizes the need to build a strong information technology backbone where data about employees and employers is accessible so government agencies can effectively manage contributions to the system and claims by beneficiaries (Lee, 2002).

5.2 The Indian Context

This section presents the Indian context with respect to the important determinants of social spending we found earlier. This context will provide valuable insight in order to craft informed recommendations for India.

Extent of Informal and Casual Labor

We have found that a larger informal sector makes it harder for governments to provide social services due to a lack of information, and the difficulty in targeting. Meanwhile, informal sector workers are not protected under worker protection legislation, making them further vulnerable. We now discuss the situation with informal workers in India.

The informal sector dominates employment in India, and the vast majority of employees – 93% - are either employed in the informal sector or only casually employed in the formal sector. Workers benefit from no benefits, healthcare, or security, and do not have access to social measures such as pensions (Basole & Basu, 2011). Informal workers are also not represented by unions and thus have no bargaining power (Dibyendu, Saha, & Sen, 2013). The size of the informal workforce has significantly grown over time, including the reform-era decade of the 1990s. Major industries which have begun operations in India have been characterized by a low employment elasticity of output, preferring the route of capital intensity despite low labor costs (Basole & Basu, 2011).

This rather baffling situation can be explained by India's strict and highly restrictive labor laws, which remain among the most protective in the developing world. They, however, only apply to workers in the formal sector, where unionization rates remain high. Workers have actively fought for their rights and even during the era of liberalization and globalization measures, India's sophisticated labor market framework and regulation has been left largely intact but it protects only a small minority of all employees. Using loopholes in the legislation, corporations actively seeking flexibility have managed to bring in workers which are contract workers who do not benefit from any such legislation and labor protection. The result is a highly segmented labor market where the formal sector employees are distinguished by higher education and skill levels, labor protection and bargaining, and a poverty rate of only 4.3% among them in the year 2007.

Meanwhile, casual workers are characterized by their lower education and skill attainment, no protective legislation, and a poverty rate of 20.4% among them (Dibyendu, Saha, & Sen, 2013).

Corporations seeking flexibility in their labor operations have promulgated an increase in casual and informal sector employees, ironically as a result of highly protective labor regulation (Basole & Basu, 2011). This can be seen more clearly on a state-level; states with more stricter labor law tend to see a greater increase in the use of contracted labor or non-core tasks being subcontracted to informal sector firms (Dibyendu, Saha, & Sen, 2013).

Surplus Labor and Underemployment

India has historically been home to a large amount of surplus labor in agriculture, which has been considered a tool for development; a virtually unlimited supply of cheap labor for industry (Krishnamurty, 2008). Farming in India is neither large-scale nor mechanized (Foster & Rosenzweig, 2010), leading to a situation where too many people cultivating too little land (Krishnamurty, 2008).

Along the same lines, the problem of underemployment and seasonal unemployment has been noted. Even while many farmers have much work during the high season, there are simply very few non-agricultural employment opportunities in rural areas, leading to much unemployment during the off-season. Also prevalent is the presence of disguised unemployment through the diversion of labor from more productive to less productive industries, particularly in relation to the decline of the traditional handicraft industry. The presence of the disguised unemployed and the underemployed dilute the bargaining power of the entire workforce as these workers are willing to work below the going wage and without the generally accepted level of benefits; their concern is to simply find relatively productive work (Krishnamurty, 2008).

Unionization and Labor Representation

While the extent of informal, surplus, and underemployed labor provide insight into the condition of the bargaining power of workers in India, creating a richer and more complete picture requires an examination of the nature and legal circumstances of unions in the country. This examination reflects the rather complicated nature of unionization in India and its consequent effects.

The most significant piece of legislation which affects bargaining rights and the relationship between employees and employers is the Industrial Disputes Act (IDA), passed in the year 1947, the year India achieved independence, and amended several times since. It is this act, which applies to all firms with at least 50 employees, which results in among the most protective worker legislation in the developing world. While initially applicable only to firms with 300 employees, pressure from trade unions and other labor-focused organizations resulted in the subsequent amendments, making the law applicable to smaller firms and increasing the law's scope (D'Souza, 2008).

However, the IDA left enough loopholes for businesses to exploit and undermine labor rights. The government had the right to allow or refuse a company from laying off workers and the decision depended on large part the ideological leanings of the particular government in power; when the right-wing National Democratic Alliance (NDA; the government also in power today) was in power, firms found it easier to obtain permission to lay off workers. Other loopholes firms could actively take advantage of included arbitrarily breaking up their production units into smaller units and thus escaping the purview of the law. Meanwhile, entire sections of workers were excluded from unions and did not come under the IDA; these workers comprise the informal and casual workers and this distinction resulted in the highly segmented labor market as described earlier. Thus, those workers who benefited from unionization enjoyed strong labor rights and conditions as well as government support; however, the majority of workers who did not enjoy labor protection and unionization suffered poor labor conditions and wages and virtually no government support (Hensman, 2010).

Civil Society

The segmentation of labor leads us to consider the role played by civil society to protect the rights and freedoms of labor, particularly labor not protected by unions. India's strong democratic framework today supports a broad and active civil society genuinely serving various groups in society. However, it was not always such. In the first few decades after independence, the government served as provider and protector to all and so the citizenry became depoliticized, and civil society was solely the domain of the English-literate elite. However, as India embraced globalization and liberalization and vulnerable groups were exposed to the vagaries of the market, non-governmental organizations (NGOs) cropped up to take up issues previously left to the state. Thus, India's pluralistic civil society sector was born. The years in the new millennium has witnessed a rapid increase in the rise of civil society organizations and grassroots movements. While reflective of a strong democratic environment, the gaps filled in by such organizations point to a reduced role played by the government in protecting vulnerable groups (Sahoo, 2008).

However, with regards to fighting for the rights of ununionized and informal sector workers, action was limited. Struggle for such workers existed nominally in some states but was very fragmented and did not achieve any positive outcomes. A more united and coherent struggle may have helped improve the rights and conditions of such workers through lobbying and influencing legislation (Hensman, 2010).

Democratic Framework

India enjoys a robust and genuine democratic framework, with competition among political parties driving policymaking. The Economist Intelligence Unit's Global Democracy Index has consistently ranked India as a flawed democracy, which also applies to countries such as the United States and France (Economist Intelligence Unit, 2018). Meanwhile, Freedom House has consistently ranked India as "free", recognizing India's active and pluralistic political makeup and the federal nature of the country, resulting in a division of power between the central and state levels (Freedom House, 2018). In this sense, India is at a stronger position to defend social spending compared to many other developing countries, which do not benefit from the same level of democratic framework.

Within this democratic framework, leftist organizations and parties have been vocal about protecting social spending and provided a genuine voice to ensure that vulnerable groups are looked after in a rapidly changing and globalizing economic environment. Continued agitation and direct action by the Left has slowed down the decline in social spending over time. Moreover, intervention and pressure by the Left was directly responsible in the passage of the National Rural Employment Guarantee Act (NREGA), an employment guarantee so significant that we cover this concept in its own subsection (Ramachandran, 2010).

National Rural Employment Guarantee Act (NREGA)

Passed in 2005 and implemented in a phased manner from 2006, the NREGA guarantees 100 days of unskilled manual employment to members of rural households (Azam, 2012). Now renamed Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), the scheme covers all rural districts of the country. The execution of the scheme is an explicit acknowledgement of the fact that India's rapid growth and globalization has not created many benefits to its rural citizens and that employment is an entitlement which must be respected by the government. In the year 2010, nearly 53 million rural households were provided with around 2862 million days of employment (Ghose, 2011).

The program mandates the state governments to find suitable work for claimants within 15 days of an application being lodged, failure of which will result in the payment of a nominal minimum wage to beneficiaries. Typical projects include those generally considered the realm of such employment guarantee schemes, such as roadworks, irrigation, and construction. Besides a technique to ensure that rural residents are able to eke out a livelihood, this program is also a means to develop the rural economy as a whole and reduce the vast volume of migration to urban areas, causing the increase in informal and casual labor. The costs of the scheme are split between the state and central (federal) governments while states are given the authority to set wage rates (Azam, 2012).

As the largest special employment program in the world, the NREGA has received much praise as an active solution to combat limited rural employment opportunities. However, the program has many flaws and limitations which need to be continually addressed. While the program offers up to 100 days of employment, an average rural household received only 54 days of employment, with wide variations by state. For example, the average beneficiary received only 25 days of employment in the eastern state of Arunachal Pradesh while the average beneficiary received 95 days of employment in the state of Mizoram, also in the east. Those unable to secure a job are legally expected to be compensated, however, there is evidence that many of them do not actually receive any compensation. These problems call for an expansion in the scheme to ensure that the set targets can be met, and even increased as needed. In 2010, expenditure on the program amounted to 0.65% of the GDP, double that of just two years earlier; there is hope that further increases in size will allow the program to meet the needs of all eligible beneficiaries (Ghose, 2011). Another major problem with the program is that of leakages through corruption, and addressing this problem requires a holistic discussion of corruption in India, which is beyond the scope of this study.

5.3 Our Recommendations for India

We now move on to creating policy recommendations for India to follow to maintain, and even increase, social spending in the face of globalization. These policies incorporate what we have learnt from generic policy recommendations outlined above while considering the unique context of India.

The above section has allowed us to appreciate the size, scope, and importance of the NREGA scheme. NREGA is a key program to work towards rural development and provide livelihoods for the rural poor; this is important to mitigate the problem of surplus labor and underemployment which feeds into informal labor and undermines the bargaining power of the labor force as a whole. Given the significant input of the various state governments, alongside the central government, in the operation of the NREGA scheme, there is unsurprisingly much variation in the performance and effectiveness metrics of NREGA among states. There is a strong need to actively collect data on the operation of the program in the different states because as of now, India lacks a strong information technology infrastructure to analyze predictors of performance. Once such infrastructure is in place, India can take steps to understand why the scheme has been more effective in some states than others (Rengasamy & Sasi Kumar, 2011).

Empirical studies in this sphere are relatively scarce and few look at the performance of every, or even several, states. However, a study into the higher-than-average performance levels in certain states in North-East India show us that regions with low levels of industry tend to have a higher positive response rate to NREGA; the highest returns accrue to regions with the lowest level of initial opportunity. This finding can be exploited on a district level too; individual districts in every state which have low levels of initial development and industry opportunity should be targeted for further penetration of NREGA, and any increases in the NREGA budget should be first directed to these districts. This would lead to an appreciable level of effectiveness seen in the targeted areas and make the case for further increases in the resources devoted to the program. This would also tend to create equity as the most disadvantaged districts would gain further attention and resources from the scheme. Besides through NREGA, these districts should be targeted for the generation of further mainline public employment and broader rural development (Krishnamurty, 2008).

A study analyzing the impact of NREGA between two states: Uttar Pradesh in the north Hindi-speaking heartland, and Andhra Pradesh, in the south, identified political commitment and accountability of elected officials to the public as key indicators of the effectiveness of NREGA. This of course applies to other welfare programs undertaken too. Despite having a robust democratic framework, Indian officials at all levels of government are often not accountable to the public, especially the rural poor, due to high levels of illiteracy, the political dynamics, and the low levels of awareness among people. This is particularly true of relatively poor states such as Uttar Pradesh and others in the Hindi-speaking heartland and this explains that NREGA has been less effective there than in states like Andhra Pradesh, where the government has demonstrated interest for the program and has worked to make public officials more accountable to the citizenry. While the complex political processes which determine levels of corruption and accountability are beyond the scope of this analysis, the establishment of a strong information technology infrastructure which creates transparency through the storage, analysis, and distribution of information will tend to push towards greater accountability. Targeting participation of the most marginalized groups, such as women, has also been suggested to improve the effectiveness of the program (Dutta, 2015).

When it comes to unionization and labor representation, the key problem is the rigid segmentation of workers as formal or informal. While the small minority of workers who are considered formal benefit from labor regulations which are considered among the most protective in the developing world, the vast majority of workers who are considered informal do not enjoy any benefits. Key to work towards creating more favorable circumstances for the entire workforce is to bridge this stark gulf. This involves not only fighting for the rights of informal workers but also reducing union militancy in the formal sector. The incentives which guide businesses to circumvent hiring formal workers must be studied. It is likely that businesses find that hiring protected workers is too expensive in terms of compliance costs. In such cases, it may be worth considering for the government to work with unions and agree to protective regulation being based on productivity to make hiring formal workers worthwhile for businesses.

There is a systematic divide between formal and informal workers in terms of skills, awareness, and even literacy levels. These workers can be specifically targeted to receive labor market programs such as training so they can gain the appropriate skills to make themselves more valuable to employers as formal workers. Informal workers should also be informed of their rights and expectations from their employers. Redressal mechanisms specifically to address grievances and labor rights violations involving informal workers can be set up so informal workers feel more empowered and so state entities and employers are more accountable to them. Moreover, the examples of Indonesia and Malaysia highlight the possibility of entire social security agencies and programs specifically designed for informal workers.

Civil society has a huge opportunity to play a leading role here. They can provide a voice to marginalized groups who may be adversely affected by changes to social spending as well as to informal workers. They can band together and produce a unified voice to work towards accountability of public officials towards citizens and empowerment of citizens by greater transparency and improved access to redressal mechanisms. Civil society organizations can organize social audits of major programs to ensure that the money is going where it is destined and not ending as leakages captured within the bureaucracy (Dutta, 2015). Informal workers are difficult to organize, however, this is a challenge which can be taken up by civil society organizations. Empowering informal workers will also involve the provision of digital training so they can access information disbursed by the government and other organizations on social programs and their rights. E-government and social media are powerful tools to foster openness and transparency and when able to use such tools, marginalized groups can be actively involved in political and social processes (Bertot, Jaeger & Grimes, 2010).

The skills gap is an important determinant of whether a worker ends up as a formal or informal employee and it is vital that unskilled workers receive the opportunity to upgrade their skills and develop skills in demand. This is another task which can be taken up by non-government organizations. Moreover, the provision of skills and training can also be included in schemes such as NREGA or separate schemes, with a possible link to NREGA. Such programs must also take into consideration the local context in order to meet people’s needs and be effective. In India, given the levels of poverty, many cannot afford the lost income associated with pursuing formal education. Therefore, the informal passing on of skills within the family through apprenticeships is a very popular means of learning and training. These efforts can further be supported through community-led efforts involving non-government organizations. Meanwhile, governments can also support such efforts by subsidizing such training and complementing it with vocational training to improve and diversify the skills of a household (Unni & Rani, 2003).

Therefore, this paper provides recommendations for India along the following lines: acknowledging the importance of employment generation programs like NREGA and identifying ways to improve effectiveness by developing stronger IT infrastructure to perform data analysis and compare performance across states and regions; reducing the segmentation between informal and formal workers and reduce incentives to hire informal workers; and target training and education opportunities to informal workers in order to make them more appealing as formal, full-time employees to firms.

6. Conclusion

This research was undertaken for the purpose of determining if globalization was associated with a decline in social spending in developing countries and what lessons could India learn from the experience of other nations to protect its social spending as it continues to integrate itself in the global economy.

This study began with a definition of social spending to be used throughout to maintain consistency. Drawing upon the work of other scholars, social spending was broadly defined as all types of government spending intended to protect citizens from poverty and deprivation. The use of the term 'social spending' was justified as a result of the hazy boundaries of the associative concepts of social security and social welfare. The importance of social spending, particularly in an economy experiencing globalization, was emphasized upon on the basis that such an economy experiences significant change which many vulnerable groups may not be able to exploit to their economic advantage. This discussion was complemented by emphasizing the increase in globalization, especially among developing countries, which has taken place in the past few decades, often through international pressure.

The study went further to explain the need for social spending in developing countries, a concept typically applied only to developed countries. At the same time, examples of how particular countries are implementing particular social programs highlighted the lacking infrastructure and resources to run efficient programs. These problems are particularly acute in developing countries embracing the global economy. The study then went on to identify the effects of globalization on social spending among developing and developed countries. Making use of empirical evidence from predominantly developed countries over time and the theoretical frameworks of the Strong Globalization and Diminished Democracy hypotheses, we understood that the effects of globalization on welfare spending may be divergent among developing and developed countries.

Next, the study strived to clarify the particular characteristics of developing and developed countries which are responsible for this divergence. Understanding the experience of individual countries, and regions as they became increasingly globalized pointed to some key determinants of the impact of globalization on welfare spending. These include the level of democracy and the quality of institutions; the extent of surplus and informal labor; the demographic distribution of the population; the intensity of civil society; and the collective bargaining and unionization rights afforded to employees. General recommendations for developing countries were then developed in order to maintain social spending in a globalizing context.

The study then applied these findings to the case of India. This began with first understanding the unique economic and social context and circumstances of India by delving into the situation with democracy, surplus labor, the informal sector, and employment guarantee programs in place. Tying together the general recommendations developed along with the Indian context allows us to create specific recommendations for India. These include improving the integrity of employment guarantee programs; working towards reducing the hierarchical segmentation between informal and formal workers by increasing protection for informal workers and diluting the overprotective standards for formal workers; as well as targeting informal workers for training and education opportunities.

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