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Human Dignity, Globalization and the Welfare State*

Abstract

The paper analyses the consequences of globalization, in particular increased institutional competition, on the value of human dignity. The changing role of the welfare state is given special attention. The concept of human dignity is defined as the ability of individuals to take active responsibility for their own life projects. The overall conclusion is that globalization is positively related to human dignity.

Globalization and Institutional Competition

The values in the 21st century will be values that are compatible with and supported by world we live in, values that are *values in action* and not just abstract ideals. This paper addresses the question of how human dignity may be affected by globalization and the changing role of the welfare state.

A pervasive development of the last few decades has been globalization. The world has become increasingly interconnected. This process will most likely continue for many years to come, despite the financial crises and economic downturn the last couple of years.

The basis for all this is that new technologies and processes of deregulation have dramatically lowered the transaction costs, i. e. the costs to communicate, collaborate, negotiate, trade etc. As a consequence it has become increasingly easier to move and integrate different kinds of resources – capital, com-

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petence, technologies, information, knowledge etc. – between different countries and continents. For example, foreign trade as share of GDP has almost doubled in Sweden since the early 1990 s. The share of employees in foreign subsidiaries of Swedish multinational companies has increased dramatically, at the same time as foreign ownership of companies in Sweden has increased significantly. The phenomenon is global. In particular international direct investments have grown strongly. The financial flows have quadrupled.¹

States, citizens, organizations and companies have become increasingly interdependent.² One of the major consequences of the increased mobility is that individuals, labour, capital and companies – at least on the margin – can choose the institutional conditions, i. e. the laws, regulations, taxes etc., they live under. Institutional competition thus occurs when political jurisdictions or entities compete for competence, labor, capital and firms by offering more attractive institutions.³ Falling transaction costs have caused globalization, which in turn have caused institutional competition between jurisdictions.

The question to be addressed in this paper how human dignity is affected by globalization and institutional competition, with special focus on the welfare state. Does globalization and institutional competition threaten human dignity? How is the welfare state affected? Will there be a *race to the bottom*, where the quality of the institutions and the level of human dignity deteriorate? Or will there be a *race to the top* where things are likely to improve?

Human dignity

What should be meant by *human dignity*.⁴ A number of possible interpretations exist. The view presented here is in line with the mainstream traditions in classical humanism as well as classical liberalism according to which every individual has a unique value in herself and the view that the characteristics of a good society is individual liberty and the personal responsibility of every individual for her own life – in accordance with what she herself believes to

¹ For an overview of the internationalization of the Swedish businesses, see ITPS (2007).

² For analyses of globalization, see for example Wolf (2004), Held – Mc Grew – Goldblatt – Perraton (1999) och Dicken (1998).

³ I define institutions in accordance with Douglass North as the fundamental *rules of the game* in a society. Institutions are humanly created restrictions on human behaviour which creates incentives for human interaction. See North (1993: 16).

⁴ A longer, more elaborate versions of this section is published in Karlson (2004).

be a good life – with equal respect for others' liberty. Human dignity implies that the individual deserves respect, from herself as well as from others. But dignity has primarily a value in itself.

To classical humanists as well as classical liberals such as Giovanni Pico della Mirandola, Erasmus of Rotterdam, John Locke, Adam Smith, Baruch Spinoza and Wilhelm von Humboldt⁵ human dignity was of prime importance, even though there certainly were differences between their views. The humanist Giovanni Pico della Mirandola already in 1488 argued that human dignity is intimately connected with liberty, which makes the individual morally responsible for all her action, and thereby chooses her own character to an extent herself. Almost 400 years later the classical liberal Wilhelm von Humboldt (1993/1852, p. 10) makes the same argument in the following way:

The true end of Man, or that which is prescribed by the eternal and immutable dictates of reason, and not suggested by vague and transient desires, is the highest and most harmonious development of his powers to a complete and consistent whole. Freedom is the first and indispensable condition which the possibility of such a development presupposes...

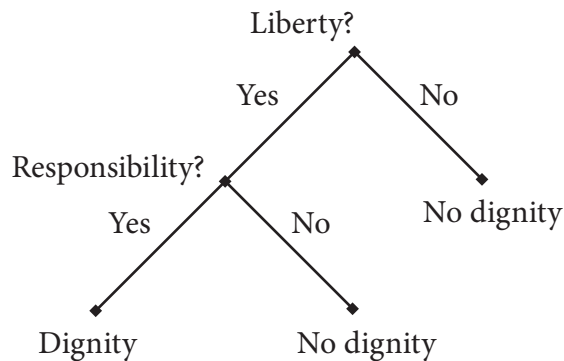
There is also a strong connection between this perspective and Aristotle's (1988) view of what it is that constitutes a good, happy and virtuous life. According to him the highest good is *eudaimoni*, which usually is translated as „human flourishing”, by which is meant acting in such a way that we fulfil our potential as rational and social human beings. Every individual is born with this potential and the method to be used to achieve it is to form one's character through good habits, practical wisdom and virtues.

Human dignity, defined then as *the ability to assume active responsibility for one's own life project*, may then look very differently to different individuals in different cultural and political settings. Since we all have different experiences, interests and priorities the good life will differ between persons and cultures, and we should therefore respect and tolerate different ways of living. Our concept of dignity is thus both inclusive and universal – the freedom and responsibility are the same for everyone. Of importance is also that every individual, also the weak and unfortunate, is given the opportunity to live a dignified life.

⁵ See e. g. Pico della Mirandola (1996/1488), Erasmus (1964), Locke (1998/1690), Smith (1982/1759), Spinoza (2001) and Von Humboldt (1993/1852).

Human dignity thus takes its starting point in the liberty of the individual, understood in the sense of non-interference. Coercive paternalism should not in general be compatible with dignity, even though some exceptions exist, as I shall argue below. Closely related to individual liberty is personal responsibility. Only if you could have acted in another way are you responsible for your actions. Liberty is in fact a prerequisite for responsibility. Figure 1 below illustrates the relationship between liberty, responsibility and dignity⁶:

Figur 1: The relationship between liberty, responsibility and dignity



A first requirement for human dignity, then, is that individual liberty. If the state can promote this it is thus positive. But if the opposite is true – e. g. if the state through different laws, regulations and taxes limit the liberty of the individual – then it is negative for human dignity. Moreover, it is important to emphasize that both economic and political liberties are essential.

The second requirement is that that the individual herself takes responsibility for her actions. Without liberty this is not possible. But responsibility is of course also to a large extent a voluntary choice. The question is then what it is that may make the individual take responsibility. And can legislation and acts by the state promote responsibility in certain situations? Can e. g. the welfare state promote human dignity? The analysis here becomes more controversial and complicated, and I will return to the question below.

In the tradition mentioned above there is an optimistic view of the individual's ability to learn from successes as well as mistakes. We learn to take responsibility by taking responsibility, we learn to be reliable by being made accountable for our own lives, which again requires freedom. Responsibility

⁶ See Klein (1997) for an elaborate analysis.

also requires that the individual has resources of her own. Such resources, in particular knowledge and wealth, are also created in interaction with the environment in which the individual acts.

To be able to support oneself and one's kin is essential to dignity. Without an income it is very hard to actively form a life project. Productive work is thus a prerequisite for dignity. Consequently a dynamic market economy is of primary importance for dignity, since only such a system can create long-term prosperity and employment. Moreover, the market process itself can be described as a learning process where the individual actors constantly use their freedom and assume responsibility for their decisions, the bad as well as the good ones.

We cannot choose any type of economic system and still believe that we can promote liberty, responsibility and dignity. The same is true for civil society. To a large extent it is within the communities, families and voluntary associations of the civil society that our views on personal responsibility are formed. Consequently, civil rights and a vital civil society are fundamental to dignity.

An optimistic perspective

The question is then how human dignity is affected by globalization and the increased institutional competition? There is substantial evidence, I will argue, supporting an optimistic perspective, albeit with certain important reservations. Due to the limited space available I can only sketch the argument. The four points below summarize the evidence:

1. Increases in material well being and a reduction of poverty

Globalisation generally promotes growth and reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused (World Bank 2002, Dollar and Collier 1999). As argued above, this clearly favors human dignity and the individual's ability to assume active responsibility for his or her own life projects.

The world's inflation-adjusted, per-capita income rose from \$5,400 in 1980 to \$8,500 in 2005, an average annual growth rate of approximately 2% (Shleifer, 2009). In both China and India hundreds of millions of people have been moved out of miserable living conditions. As a share of the world population

who lived in extreme poverty the decrease was from 42 to 25 percent between 1990 and 2005. The fraction of the population that lives in such conditions is highest in sub-Saharan Africa, although even there it has decreased from 58 % in 1990 to 51 % in 2005 (The Economist 2009).

2. World wide improvements in economic freedom

Economic growth and increased prosperity has been closely correlated with an increase in economic freedom. Countries with more economic freedom have substantially higher per-capita incomes.

A number of studies have analyzed these relationships in detail (e. g., de Haan et al., 2006). Almost without exception, they found that countries with more economic freedom grow more rapidly. And economic freedom or liberty is, as argued, fundamental to human dignity and individual responsibility.

Worldwide economic freedom, measured on an index from 1 to 10, has increased from

6.70 in 2007 to 5.55 in 1980. Much of this increase was driven by reductions in marginal income-tax rates, improvements in monetary policy, and trade liberalization. Again, many African countries are the exceptions (The Fraser Institute 2009).

3. Democratization and strengthened civil rights

Also, when it comes to democratization (e. g., free and fair elections) and civil rights (e. g., freedom of speech) the picture overall is positive. According to Eichengreen and Lebang (2006), there is a positive two-way relationship: globalization stimulates democracy and democracy stimulates globalization. This dynamic also promote human dignity

In 2008 46 percent of the world's 193 countries and 3,055,885,000 people – 46 percent of the global population – were, according to Freedom House, considered to be free in, compared to only 47 countries in 1978. 42 countries were judged non-free in 2008, compared to 55 in 1978, representing 22 percent of the total number of countries or 34 percent of the world population, where China alone accounted for half the number. Again, Africa but in this case also large parts of Asia, former Soviet republics and many Arab states fare badly (Freedom House 2009).

4. *Pressure on improving the functions of (welfare)states*

The question still remains, though, how globalization and institutional competition affects the functions and services of the state in a wider sense. If we are serious about every human's unique value, growth and wealth as well as economic, political and civil freedom are just part of the picture if we want to assess the consequences on human dignity. The state may also have a role in guaranteeing that every individual, also the weak and unfortunate, is given the resources necessary to live a dignified life.

One way to at least approach this question is to analyze how the welfare state has been affected by globalization. Perhaps somewhat surprisingly to some readers, the welfare state has not only survived institutional competition, but may even be improving. In table 1 below the change in total welfare expenditures, as a share of GDP, is presented for a number of OECD-countries (Bergh 2007):

Table 1: Total welfare expenditures, as a share of GDP, 1960-2003

	1960	1980	1998	2003
Sweden	10,8	28,6	30,5	31,3
Scandinavia	9,5	22,2	26,3	26,6
OECD:	10,1	17,4	19,6	20,9

In fact the share of welfare expenditures of GDP has increased all through the period, even though its growth rate is slowing down. Moreover, for almost all countries total tax revenues have been increasing (Curzon-Prize 2008). Hence, there are no signs of an inverse relationship between globalization and the welfare state.

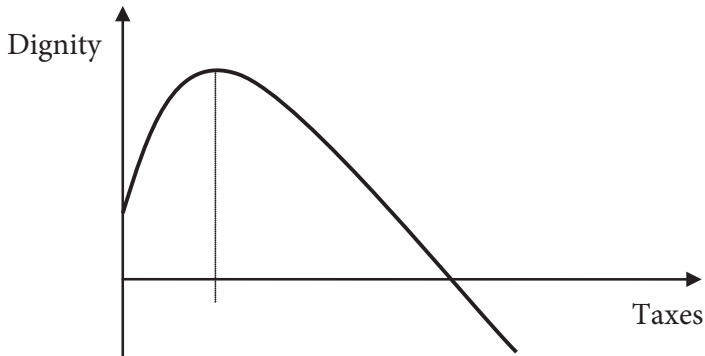
What has happened is that the marginal tax rates on labour has decreased, capital and consumption taxes have been lowered, and private production of many publicly financed services have been allowed through voucher systems etc. Hence, there are signs showing that the welfare states are becoming more efficient. One way of interpreting these findings is to say that institutional competition has given median voters stronger influence in financing and producing welfare services (Bergh 2007, Bergh and Karlsson 2009). Greater control over one's own welfare-state benefits should be regarded as a positive development to human dignity.

A potential trade off

The optimistic perspective presented above indicates that human dignity is positively affected by globalization and increased institutional competition. However, when it comes to the paternalistic welfare state it is also quite apparent that we have a somewhat difficult trade-off question to handle. The role of the state should not be to undermine the liberty of the individual or to take away her responsibility for her own life through various types of subsidies, interventions or taxes. When it comes to the needs of individuals who really cannot support themselves due to illness or misfortune, or concerning children's access to education, the state has an important role to play. But in almost all other cases and situations it is the responsibility of the individual himself to use his freedom to live in dignity. Private savings, private wealth and private insurance are always better from the perspective of dignity.

My conclusion is therefore that human dignity will decrease when the size of the state and the level of taxes reach a certain level. Figure 2 below illustrates the general relationship between taxes and dignity:

Figure 2: The relationship between taxes and dignity



The initial upward slope of the curve requires that the taxes go to the areas identified above. The subsequent downward slope is explained by the economic inefficiencies caused by high taxes – through weakened division of labour and specialisation, increased unemployment and staggering growth as well as by a less vital civil society, which all are detrimental to human dignity (Karlson 2004).

There can be no doubt that many welfare states are beyond the peak of the curve.⁷ It is still an open question whether globalisation and institutional competition will help to improve the situation.

Conclusions

My overall conclusion is nevertheless that globalization and institutional competition between different jurisdictions largely seems to promote human dignity. Increases in material well being and a reduction of poverty, together with world-wide improvements in economic freedom, democratization and strengthened civil rights, as well as pressure on improving the functions of (welfare) states, support such an optimistic perspective. The welfare states are slowly changing and there are no signs of a race to the bottom.

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⁷ Moberg (2004) has calculated the tax level necessary in Sweden to provide all the standard collective goods, scientific support, basic education for all children up through 12th grade and a basic social security net. Using the current Swedish public expenditures in these areas as estimates this amounts to around 15 percent of GDP, to be compared with the actual level of around 50 percent.

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