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Research Article

Globalisation and the welfare state: An empirical analysis of public social expenditures in OECD countries

Küreselleşme ve refah devleti: OECD ülkelerinde kamu sosyal harcamalarının ampirik analizi

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Abstract

This study aims to empirically examine the effects of different dimensions of globalisation—general, economic, trade, and financial—on public social expenditures in 17 OECD countries from 2008 to 2019. Emphasis is placed on the economic dimension of globalisation, which is further decomposed into trade and financial subcomponents. This focus is motivated by the fact that economic globalisation encapsulates the most direct market pressures and measurable transmission channels affecting welfare policy. The analysis employs random-effects panel data regressions to assess these relationships while addressing model assumptions through diagnostic testing. The findings indicate that globalisation is positively associated with social spending, supporting the compensation hypothesis, which suggests that states expand welfare provisions to offset the risks of globalisation. Economic globalisation exerts a powerful influence, with financial globalisation driving most of the observed effects. Additionally, social expenditures respond countercyclically to economic growth and unemployment, while higher governance quality is associated with lower relative social spending. Diagnostic tests reveal cross-sectional dependence, heteroskedasticity, and autocorrelation, which are addressed using Driscoll-Kraay standard errors to ensure robustness. The results suggest that globalisation fosters an expansion in social spending as governments adjust to global economic pressures. These findings highlight the evolving role of social policies in mitigating globalisation-induced inequalities and maintaining economic security. By focusing analytically on the economic dimension of globalisation and its subcomponents, this study provides a differentiated contribution to the empirical literature on welfare state adaptation.

Keywords: Globalisation, Public Social Expenditures, Panel Regression, Random Effects

Jel Codes: F60, H53, C23

Öz

Bu çalışma, 2008–2019 döneminde 17 OECD ülkesinde küreselleşmenin genel, ekonomik, ticari ve finansal boyutlarının kamu sosyal harcamaları üzerindeki etkilerini ampirik olarak incelemeyi amaçlamaktadır. Özellikle ekonomik küreselleşme boyutu ile onun alt bileşenleri olan ticaret ve finansal küreselleşme üzerinde durulmaktadır; zira bu boyutlar, refah politikalarını etkileyen en doğrudan piyasa baskılarını ve ölçülebilir aktarım kanallarını yansıtmaktadır. Analizlerde rassal etkiler panel veri modeli kullanılmış, tanısal testlerle kesitsel bağımlılık, heteroskedastisite ve otokorelasyon tespit edilmiştir. Bu ihlaller, Driscoll-Kraay standart hatalarıyla düzeltilmiştir. Bulgular, küreselleşmenin sosyal harcamaları artırdığını ve bu yönüyle telafi hipotezini desteklediğini göstermektedir. En güçlü etki ekonomik küreselleşmeden kaynaklanmakta olup, özellikle finansal küreselleşme belirleyici rol oynamaktadır. Ayrıca, ekonomik büyüme ve işsizlikle ters yönlü, yönetişim kalitesiyle ise negatif ilişkiler gözlemlenmiştir. Elde edilen sonuçlar, küreselleşme karşısında devletlerin sosyal politika araçlarını kullanarak ekonomik güvenliği sağlamaya ve eşitsizlikleri hafifletmeye çalıştığını ortaya koymaktadır.

Anahtar Kelimeler: Küreselleşme, Kamu Sosyal Harcamaları, Panel Regresyon, Rassal Etkiler

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Introduction

Social expenditures are one of the most concrete indicators of the state's responsibility to meet the most basic needs of society and to establish social justice. Through public policies, the state not only supports economic development but also intervenes against problems such as inequality, precarity and social exclusion created by the capitalist mode of production. These interventions are embodied in public services across various fields, including education, health, social security, and employment. Based on social democratic principles, the welfare state aims to share social risks and ensure fairness in income distribution. In this context, the state's orientation towards social expenditures is not limited to policies that promote economic growth but also serves to protect the values of social equality and solidarity. From this perspective, social expenditures serve as a counterweight to the structural injustices created by capitalism, strengthening democratic participation and social solidarity by protecting the most vulnerable segments of society. Thus, the active role of the state not only intervenes in production processes but also contributes to the restructuring of social life and the establishment of a more humane way of life. In the era of globalisation, the new responsibilities imposed on the state by international capital mobility, technological innovations and competitive pressures have radically changed the meaning and importance of social spending. Social spending also clearly reflects the state's commitment to addressing income inequality and promoting inclusive development. Public services in areas such as education, health, social security and employment not only support economic growth but also function as a solidarity mechanism against injustices, insecurity and social exclusion created by capitalism.

As the process of globalisation deepens, economic and cultural interactions that transcend national borders also require the state to reinterpret its approach to social policies. Modern globalisation leads to an increase in social expenditures as the uncertainties and risks created by the free flow of markets push the most vulnerable segments of society into a greater need for protection. In this context, the social democratic perspective argues that one of the main tasks of the welfare state is to mitigate the risks posed by global power dynamics and fluctuations in international markets. Through social expenditures, the state contributes to the construction of a more just and inclusive society by balancing the inequalities and social insecurity brought about by economic growth with policies based on solidarity and risk-sharing.

This study empirically analyses the effects of different dimensions of globalisation (general, economic, trade, and financial) on public social expenditures, using panel data from 17 OECD countries over the period 2008–2019. This time frame was selected because it captures the post-global financial crisis era and ends just before the onset of the COVID-19 pandemic—two defining structural shocks that bracket a relatively stable yet transformative period in globalisation dynamics and welfare state responses. Specifically, countries were selected based on the availability of uninterrupted annual data from 2008 to 2019 for the dependent variable (public social expenditures) and the KOF Globalisation Index. Nations with missing values for any key variable within this timeframe were excluded to preserve the balanced panel structure and avoid imputation bias. Countries lacking complete time series for these indicators were excluded to maintain data integrity and enable robust panel estimation. The findings indicate that globalisation has expanded the scale of social expenditure policies, reinforcing the state's role in addressing social risks. This supports the compensation hypothesis, aligning with increasing societal expectations for state intervention in mitigating the challenges of international integration. At the same time, macroeconomic and institutional factors, such as unemployment, economic growth, and governance quality, play a crucial role in shaping both the direction and magnitude of social spending policies. In the context of globalisation, state-led social policies are essential not only as a response to economic growth and competitive pressures but also as a means of upholding values such as social justice, solidarity, and equality. Social expenditures, therefore, serve as both a stabilising mechanism against external economic uncertainties and a fundamental tool for fostering a more inclusive and equitable society.

In particular, the study contributes to the literature by disaggregating globalisation into its general and economic components and further decomposing the economic dimension into trade and financial globalisation. This decision is grounded in both theoretical and empirical reasoning: economic globalisation exerts the most immediate and measurable influence on public social expenditures through channels such as trade openness, capital mobility, and fiscal competition. In contrast, social and political globalisation tend to affect welfare outcomes more indirectly, often through cultural diffusion or institutional alignment, which fall beyond the primary focus of this study. By isolating the trade and financial aspects of economic globalisation, the paper offers a more precise empirical assessment of how different global market pressures shape welfare efforts in OECD countries. This focus is also consistent with empirical studies showing that trade and financial globalisation exert more direct and quantifiable effects on fiscal and social policy instruments (e.g., Rodrik, 1998; Dreher, Gaston, & Martens, 2008). Unlike social or political dimensions, economic globalisation more frequently generates redistributive pressures through measurable economic channels, which aligns with the operational focus of this analysis.

This study is organised as follows: Section 2 provides an overview of social policies in the era of globalisation, highlighting key challenges and responses. Section 3 reviews selected empirical literature to contextualise the findings within existing research. Section 4 presents the empirical application, including the data used (Section 4.1), the model and methodology employed (Section 4.2), and the key findings. Finally, the Conclusion summarises the study's contributions and discusses policy implications.

Social policies in the era of globalisation

Social expenditures are shaped by public policies in which the state plays an active role in ensuring social justice and meeting basic social needs. In addition to supporting economic development, social policies comprise comprehensive regulations that address income inequality and social exclusion, aiming to improve the quality of life. Public services, such as education, health, social security, and employment, are the main elements of the social expenditure approach. In line with social democratic approaches, the welfare state stands out as a structure that aims to reduce the inequalities and precariousness created by capitalism, centring on the principles of social risk sharing and social equality.

In the post-1975 period, pressures on social policies increased due to globalisation, competitive pressures and demographic transformations. Nevertheless, instead of decreasing in absolute terms, social expenditures became more complex, and the so-called "welfare mix" models involving non-state actors became widespread (Özdemir, 2007; Evers, 1995). As a result, the welfare state has evolved into a dynamic structure that preserves its basic social security function despite crises and transformations while being reshaped on a global scale under the influence of international organisations (Pierson, 1996).

Although globalisation is a fundamental concept in understanding the social, economic and cultural transformations of the modern world, a unidirectional, reductionist approach to this phenomenon leads to analytical limitations (Scholte, 2008). Globalisation is a multi-layered transformation process that is not limited to the intensification of economic relations or the spread of technological developments but also redefines fundamental concepts such as identity, sovereignty, space and power. Therefore, approaches that try to explain globalisation only in terms of specific dimensions cannot adequately reflect this complexity and multidimensionality. In this context, Scholte (2008) criticises the tendency to identify globalisation with liberalisation, universalisation, Westernisation or internationalisation and argues that such approaches fail to grasp the transformative potential of the concept. According to him, these interpretations produce "analytical dead ends" that ignore the unique aspects of globalisation. For example, the liberalisation perspective identifies globalisation as the spread of the free market economy, defining it as a process limited to economic liberalism. This approach reduces globalisation to a technical and ideological economic project while relegating its social and cultural dimensions to the background.

Similarly, the universalisation perspective views globalisation as a process of homogenisation that has existed in different forms throughout history (Bradford & Lawrence, 2004). This approach runs the risk of ignoring the specificity and inequality of globalisation experiences in various geographies. The Westernization interpretation, on the other hand, considers globalisation in the context of the global expansion of Western hegemony. In this framework, globalisation is viewed as a form of cultural imperialism or neo-colonialism (Giddens, 1990; Robertson, 1992) and can even be read as a colonial project through Edward Said's critique of Orientalism.

The internationalisation approach defines globalisation as the increase in inter-state interactions and economic and political interdependencies (Held & McGrew, 2007; Hirst & Thompson, 1999). While this perspective emphasises the role of the nation-state, it does not adequately take into account the capacity of globalisation to produce trans-state actors, new spatialities and transnational identities. According to Scholte (2008), what all these approaches have in common is that they fail to analyse the uniquely transformative nature of globalisation adequately. In this context, globalisation is not only an economic or political process but also a multidimensional phenomenon that shapes new forms of interaction, identity formations and power relations in cultural, spatial and social spheres. Therefore, the concept of "globalisation" can be considered neither as a one-way process of progress nor as a simple continuation of a historical continuum. On the contrary, globalisation is a process of transformation that is reshaped by a variety of spatial, cultural and political factors in different historical contexts, often incorporating contradictory dynamics. Therefore, the analytical use of the concept necessitates a critical perspective that considers both its multiple dimensions and the complex interrelationships between them.

Globalisation has profoundly affected the traditional functioning of welfare states by transforming the economic and political institutions of the nation-state (Castells, 1996). Capital mobility, which has accelerated especially since the 1970s, the global restructuring of production, the integration of financial markets and the spread of neoliberal economic policies have limited the economic intervention capacity of the nation-state, forcing welfare states to redefine the way they maintain social policy instruments (Greve, 2006, p. 2). While increasing global competition has led states to reduce social expenditures and flexible labour markets, this process has also brought social problems such as increasing income inequalities, social exclusion and widespread job insecurity (Einhorn & Logue, 2010; Harvey, 2005).

This transformation process has sparked numerous theoretical debates in the literature on the future of the welfare state. While some argue that globalisation erodes the welfare state and threatens the sustainability of social policies, other approaches suggest that welfare states are flexible and can adapt to global pressures (Brady, Beckfield, & Seeleib-Kaiser, 2005). While these theoretical frameworks highlight the economic imperatives of globalisation, they also consider the decisive role of factors such as the preferences of political actors, institutional legacies, and citizens' rights. Hence, understanding the transformation of the welfare state in the face of globalisation should not only be considered in terms of economic structural changes but also conjunction with normative dimensions such as social justice, social demands and democratic governance.

The first view argues that globalisation weakens the welfare state and reduces the scope of social policies (Hardt & Negri, 2000; Huber & Stephens, 2001; Schwartz, 2001). The second view argues that globalisation is compatible with the welfare state and can expand and improve it (Garrett, 1998; Rieger & Leibfried, 2003; Rodrik, 1998a). The third approach argues that the impact of globalisation is limited or marginal and that the issue is overstated (Atkinson, 2002; Kittel & Winner, 2005; Wade, 1996). Although there are differences between these views, a consensus exists that the future of the welfare state is shaped by global dynamics (Brady et al., 2005; Keohane & Milner, 1996).

There are various theoretical arguments in the literature that globalisation can have four different effects on social spending (Brady et al., 2005).

Globalisation Increases Social Expenditures: This approach assumes that economic instability, uncertainty and job insecurity caused by globalisation increase voters' demand for social protection. Cameron (1978) and Rodrik (1998a) argue that in environments of increased economic openness, individuals tend to seek security through the welfare state. Similarly, Garrett (1998) and Rieger and Leibfried (2003) consider this under the "compensation" hypothesis. According to this hypothesis, the risks posed by global market forces can be mitigated by the state compensating for them through increased social expenditures, which may lead to the expansion of the welfare state.

Globalisation Reduces Social Expenditures: Another approach argues that globalisation has restrictive effects on welfare states, suppressing social expenditures. The pressure of fiscal discipline created by neoliberal globalisation, shrinking public budgets, tax competition and capital retention concerns force states to cut social spending (Milanovic, 1998; Jessop, 2002). This approach uses the race to the bottom metaphor, whereby states minimise their social policy obligations to maintain international competitiveness (Gray, 1998; Rhodes, 1996; Schwartz, 2001; Strange, 1996, 1997)

Globalisation May Have Nonlinear Effects and Contribute to the Convergence of Welfare States: According to this perspective, the effects of globalisation may be non-linear. Hicks (1999) and Rodrik (1998b) argue that economic openness may initially increase social expenditures, but once a certain threshold is crossed, this trend may reverse due to increased competitive pressure. In this case, countries with high levels of expenditure may be tempted to cut back due to fiscal sustainability concerns, while low-expenditure countries may catch up with others by increasing their social spending to some extent (Garrett, 1998; Cameron, 1978). In this context, globalisation may create a kind of convergence process.

Globalisation Creates Different Effects Depending on the State's Structure: The last approach argues that the effects of globalisation on social spending differ depending on factors such as the state's institutional capacity, political tradition, regional location, and cultural values (Bowles & Wagman, 1997). According to this view, Scandinavian countries with robust institutional structures may be able to maintain their welfare spending despite global pressures. In contrast, Central and Eastern European countries with limited fiscal capacity may have to cut back more (Katzenstein, 2006). This suggests that nation-states' responses to globalisation are not homogenous but rather are shaped by historical, geographical and political contexts.

These four approaches reveal that the relationship between globalisation and social expenditures is not one-dimensional and universally valid. Countries' institutional structures, political preferences, social demands and regional positions shape the effects of globalisation on the welfare state in different ways.

Therefore, how globalisation transforms the state should be considered as a multidimensional process that varies according to national contexts and internal dynamics. Numerous comparative and empirical studies in the literature have been conducted in line with these theoretical frameworks. Some examples of these studies will be presented in the following section.

Selected empirical literature

The empirical relationship between globalisation and welfare state development has been widely studied. Yet, the findings remain inconclusive due to variations in analytical scope, regional context, periods, and operational definitions. Existing research highlights that the impact of globalisation on social spending is highly context-dependent and may vary according to the specific dimensions of globalisation under consideration—such as trade or financial flows—as well as the institutional and political characteristics of the countries analysed. The following selected studies illustrate this heterogeneity and provide a foundation for situating the current research within the broader empirical literature.

Empirical studies on the globalisation–welfare state nexus have produced heterogeneous findings depending on the period, region, welfare regime type, and methodological choices. For instance, Wu et al. (2023) analysed 169 countries from 1970 to 2018 and found that globalisation, as measured by the KOF index, enhances the overall quality of welfare states. Their findings support the compensation hypothesis and suggest consistent effects across income levels.

In contrast, Potrafke (2019), focusing on Asian developing countries, reported no significant relationship between globalisation and social spending, attributing this to institutional constraints and the presence of alternative non-state support mechanisms.

In a regionally disaggregated analysis, Hakeem et al. (2023) found that in South Asian countries, trade openness tends to increase social spending, while financial globalisation reduces it. The political regime type showed a limited moderating influence in their study.

Potrafke (2019), also focusing on developing Asian countries, found no significant association between globalisation and social spending. His findings suggest that institutional constraints and the presence of alternative welfare mechanisms may weaken the globalisation–welfare state linkage in these contexts.

Similarly, Anderson and Obeng (2021) examined the effects of "hyper-globalisation" during the 1990s and 2000s, concluding that trade globalisation contributed to increased social spending, whereas financial globalisation had a dampening effect. Their findings suggest that the impact of globalisation is powerfully shaped by its specific form.

Other studies have emphasised differences across welfare regimes. Kim and Zurlo (2009), using a mixed-effects panel model on 18 developed countries from 1980 to 2001, found that globalisation negatively affects social expenditures in social democratic regimes, while the effects are weaker in liberal and conservative governments.

In a similar vein, Leibrecht, Klien, & Onaran (2011) analysed social spending in 27 EU countries using indicators such as trade openness, FDI, and a composite globalisation index. Their results highlight a strong globalisation effect via productivity channels in Eastern Europe but no significant impact on liberal and Southern European welfare regimes.

Onaran and Boesch (2014) compared former EU members and Central and Eastern European countries, showing that globalisation is associated with simultaneous increases in social expenditures and labour taxes in conservative regimes, while social spending remains stable and labour taxes rise in social democratic governments. In liberal regimes, globalisation tends to reduce social expenditures.

The findings of Yay and Aksoy (2018), who examined 23 developed and nine transition economies from 1980 to 2010, revealed no statistically significant direct relationship between globalisation and welfare effort. However, regime-based differences were evident: the compensation hypothesis held in some cases, while the efficiency hypothesis was more applicable in others.

Focusing on political institutions, Rudra and Haggard (2005) analysed 57 less developed countries (1975–1997) and concluded that authoritarian regimes are more susceptible to global economic pressures, leading to cuts in social spending. In contrast, democratic and mixed regimes manage to sustain welfare spending more effectively, thanks to relatively functional mechanisms of political accountability and voter demand.

In terms of methodology, Santos and Simões (2021) used the System GMM approach to analyse 36 OECD countries between 1990 and 2018. Their results show a generally positive effect of globalisation—

particularly its economic and political components—on social expenditures, although the magnitude of the effect differs by country and welfare model.

Beyond spending levels, some studies have investigated the financing of welfare. For example, Bretschger and Hettich (2002) found that globalisation (measured via trade openness and capital account liberalisation) led to structural tax changes in 14 OECD countries between 1967 and 1996. Their findings indicate a shift toward higher labour taxes and social spending, while taxation of capital declined—implying that both compensation and efficiency hypotheses may operate simultaneously. From a longer-term perspective, Navarro, Schmitt, & Astudillo (2004) analysed welfare state structures across two periods (1946–1980 and 1980–2000) in 19 OECD countries. Despite greater economic integration, they observed continued increases in public social expenditures and employment, stability in capital taxation, and the persistence of historical welfare state structures. These findings counter the erosion thesis and instead point to strategic institutional adaptations to globalisation.

Complementing these empirical efforts, recent meta-analyses have highlighted conceptual and methodological variability. Heimberger (2021) found a small average adverse effect of globalisation on social protection spending. In contrast, Giuliani and Madama (2025) emphasised that empirical outcomes largely depend on how globalisation and welfare are operationalised rather than on temporal or geographical scope. Collectively, these studies underscore the importance of institutional context, policy design, and methodological choices in shaping the observed relationship between globalisation and the welfare state.

Considering this literature, the present study aims to contribute to the ongoing debate by empirically analysing the effect of globalisation on public social expenditures. Unlike many previous studies, globalisation is decomposed into four sub-dimensions—general, economic, trade, and financial—to capture heterogeneous effects across different globalisation channels. The analysis covers 17 OECD countries for the period 2008–2019 and employs Driscoll–Kraay standard errors to address cross-sectional dependence, heteroskedasticity, and autocorrelation, thereby offering an updated and robust methodological contribution to the literature.

Empirical application

Data

This study examines the impact of globalisation on social spending in 17 OECD countries[1] from 2008 to 2019[2]. The dependent variable is public social expenditures as a share of GDP (socexp), obtained from the OECD database. The key independent variables include four dimensions of the KOF globalisation index: overall globalisation (kofgl), economic globalisation (kofec), financial globalisation (koffi), and trade globalisation (koftr) (Gygli, Haelg, Potrafke, & Sturm, 2019). Other independent variables include the annual GDP growth rate (growth) and unemployment rate (unemp), sourced from the World Bank (2024) database, as well as the quality of governance index (QOG) from the International Country Risk Guide (ICRG) (Teorell et al., 2025). Table 1 provides detailed information on these variables. The selected indicators ensure conceptual validity and comparability, aligning with the existing literature. This approach contributes to the broader academic debate and facilitates a comparative analysis.

Table 1: Variable Descriptions

	Acronyms	Variable	Measurement Units	Source
Dependent variable	socexp	Public Social Expenditures	% of GDP	OECD
Explanatory Variables	kofgl	Overall Globalisation	0–100 index value	KOF ETH Zürich
	kofec	Economic Globalisation	0–100 index value	KOF ETH Zürich
	koffi	Financial Globalisation	0–100 index value	KOF ETH Zürich
	koftr	Trade Globalization	0–100 index value	KOF ETH Zürich
Control Variables	grwth	GDP Growth Rate	Annual %	World Bank
	unemp	Unemployment Rate	% of labour force, national est.	World Bank
	qog	Quality of Governance	Scaled from 0 to 1	ICRG
	tfr	Total Fertility Rate	Per Woman	World Bank

Source: Created by authors.

The dependent variable, socexp, is considered a proxy for measuring the extent of welfare state policies. Data for this variable is drawn from the OECD (2024) Social Expenditure Database (SOCX), which offers

[1] Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Sweden, Switzerland, the United Kingdom, and the United States.

[2] This study does not involve any data collection method that requires ethical approval.

internationally comparable statistics on both public and private social expenditures. In this study, however, only public social expenditures as a percentage of GDP are utilised to specifically capture the direct role of the state in welfare provision. The KOF Globalization Index and its relevant components serve as key independent variables to examine the effect of globalisation on the welfare state. The overall globalisation index (kofgl) is a composite measure that captures the economic, social, and political dimensions of globalisation. To align with the study's objective, the analysis also focuses specifically on the economic dimension of globalisation. This is assessed through the Economic Globalisation Index (KOFEC) and its sub-components: Trade Globalisation (KOFTR) and Financial Globalisation (KOFI). The trade component encompasses trade in goods and services, trade partner diversity, regulations, taxes, tariffs, and trade agreements. The financial component, on the other hand, accounts for foreign direct investment, portfolio investment, international debt, international reserves, international income payments, investment restrictions, capital account openness, and international investment agreements.

Additionally, several control variables are included in the analysis. Economic growth (grwth), measured by the annual GDP growth rate, captures the cyclical dynamics of the economy and its influence on social spending, as higher growth may reduce reliance on public support, whereas downturns increase demand for social assistance. Similarly, unemployment (unemp) is a key determinant of social spending in welfare states, as rising unemployment typically leads to higher expenditures on unemployment benefits and social assistance (Esping-Andersen, 1990). In a global economy prone to fluctuations, increasing unemployment is expected to heighten demand for social policy interventions. Thus, grwth and unemp together account for the cyclical effects of economic expansions and contractions. The quality of governance (qog) is included to account for the institutional characteristics of welfare state policies. Governance quality is reflected in bureaucratic efficiency, corruption control, rule of law, and transparency. Stronger governance may reduce the need for social spending, as well-functioning institutions can mitigate adverse economic conditions through effective administrative mechanisms.

Finally, the total fertility rate (tfr) measures the average number of children a woman is expected to have over her lifetime and serves as a key demographic indicator in welfare state analysis. Higher fertility rates lead to increased long-term demand for public services, including childcare, education, and healthcare, thereby shaping the scale and composition of social expenditures. In the context of globalisation, fertility patterns may interact with labour market dynamics and gender norms, influencing states' redistributive capacity. tfr is thus included to control for underlying demographic pressures that could confound the effects of globalisation on welfare efforts.

Table 2 presents the summary statistics of the selected variables, while Table 3 displays their pairwise correlations. The latter suggests that the regressors are not highly correlated to the extent that would raise concerns about multicollinearity.

Table 2: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
socexp	204	23.299	4.843	12.868	31.968
kofgl	204	85.537	3.905	75.660	91.141
kofec	204	78.845	7.851	63.810	90.112
koftr	204	74.339	9.909	53.264	89.889
koffi	204	83.428	7.227	66.136	96.276
grwth	204	0.536	2.935	-10.016	23.201
unemp	204	7.995	4.214	2.300	27.500
qog	204	0.860	0.115	0.569	1.000
tfr	204	1.674	0.227	1.21	2.19

Source: Created by authors.

Table 3: Pairwise Correlations

Variables	socexp	kofgl	kofec	koftr	koffi	grwth	unemp	qog	tfr
socexp	1.000								
kofgl	0.101	1.000							
kofec	0.002	0.776	1.000						
koftr	0.132	0.699	0.946	1.000					
koffi	-0.183	0.726	0.889	0.692	1.000				
grwth	-0.189	0.140	0.162	0.128	0.174	1.000			
unemp	0.348	-0.307	-0.219	-0.011	-0.465	-0.147	1.000		
qog	-0.228	0.370	0.483	0.301	0.644	0.179	-0.597	1.000	
tfr	0.125	-0.778	0.112	-0.177	0.586	-0.946	0.342	-0.882	1.000

Source: Created by authors.

Model, methodology, findings

Our empirical analysis explores the impact of different definitions of globalisation through the following models:

$$\text{socexp}_{it} = \alpha_i + \beta_1 \cdot \text{kofgl}_{it} + \beta_2 \cdot \text{grwth}_{it} + \beta_3 \cdot \text{unemp}_{it} + \beta_4 \cdot \text{qog}_{it} + \beta_5 \cdot \text{tfr}_{it} + \varepsilon_{it} \quad (1)$$

$$\text{socexp}_{it} = \alpha_i + \beta_1 \cdot \text{kofec}_{it} + \beta_2 \cdot \text{grwth}_{it} + \beta_3 \cdot \text{unemp}_{it} + \beta_4 \cdot \text{qog}_{it} + \beta_5 \cdot \text{tfr}_{it} + \varepsilon_{it} \quad (2)$$

$$\text{socexp}_{it} = \alpha_i + \beta_1 \cdot \text{koftr}_{it} + \beta_2 \cdot \text{grwth}_{it} + \beta_3 \cdot \text{unemp}_{it} + \beta_4 \cdot \text{qog}_{it} + \beta_5 \cdot \text{tfr}_{it} + \varepsilon_{it} \quad (3)$$

$$\text{Socexp}_{it} = \alpha_i + \beta_1 \cdot \text{koffi}_{it} + \beta_2 \cdot \text{grwth}_{it} + \beta_3 \cdot \text{unemp}_{it} + \beta_4 \cdot \text{qog}_{it} + \beta_5 \cdot \text{tfr}_{it} + \varepsilon_{it} \quad (4)$$

Model (1) examines the impact of globalisation on social expenditures, incorporating its economic, social, and political dimensions. In contrast, Model (2) isolates the economic dimension, focusing solely on its effects through trade and financial structures. Models (3) and (4) further refine this analysis by separately estimating the relationship between social spending and trade and economic globalisation, respectively.

Both overall and economic globalisation may influence social expenditures in opposing ways. On the one hand, heightened global competition could pressure governments to reduce social spending to attract investment and retain businesses by lowering labour costs and tax burdens. Additionally, increased capital mobility and market pressures may drive fiscal policies that limit public expenditures to maintain economic competitiveness and investor confidence. On the other hand, greater exposure to external economic and political shocks, along with widening income disparities resulting from shifts in production patterns and labour markets, may compel governments to increase social spending. This acts as a stabilising mechanism, protecting vulnerable populations, preserving social cohesion, and mitigating disruptions caused by globalisation.

The Pesaran (2004) test is applied to examine the existence of cross-sectional dependence (CSD). The results presented in Table 4 reveal that the null hypothesis of "no cross-sectional dependence" is rejected at the 1% level for all variables except for qog (socexp, kofgl, kofec, koftr, koffi, grwth, unemp). This suggests that cross-sectional dependence exists in the majority of the variables in the data set. To assess the stationarity properties of the variables in the presence of cross-sectional dependence, Pesaran's CADF test is used. As shown in Table 5, some variables are non-stationary at level but become stationary in the first differences (I(1)). Due to the mixed order of integration among the regressors, the regression is estimated in first differences instead of using cointegration estimation techniques, which require all regressors to be I(1).

Table 4: The Pesaran (2004) Cross-Sectional Dependence Test

Variable	CD-test	p-value
socexp	12.663***	0.000
kofgl	19.521***	0.000
kofec	15.846***	0.000
koftr	12.547***	0.000
koffi	17.822***	0.000
grwth	26.127***	0.000
unemp	20.550***	0.000
qog	0.365	0.715
tfr	18.198***	0.000

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Table 5: The Panel Unit Root Test Under Cross-Sectional Dependence

Variable	Level		First difference	
	t-bar	p-value	t-bar	p-value
socexp	-1.603	0.657	-2.196**	0.033
kofgl	-2.501***	0.001	-3.042***	0.000
kofec	-2.296**	0.013	-3.632***	0.000
koftr	-1.875	0.266	-3.054***	0.000
koffi	-1.390	0.887	-3.649***	0.000
grwth	-2.046	0.102	-3.526***	0.000
unemp	-2.838***	0.000	-2.473***	0.002
qog	0.212	1.000	-2.331**	0.024
tfr	-1.545	0.734	-3.541***	0.000

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Following the fixed effects estimation, the Modified Wald test is used to detect group-wise heteroskedasticity in the error terms. In contrast, the Wooldridge test assesses serial correlation in the fixed effects regressions. The results in Table 6 confirm the presence of both heteroskedasticity and autocorrelation in the dataset.

Table 6: Heteroskedasticity and Autocorrelation Tests

Modified Wald test for groupwise heteroskedasticity	**chi2**	**p-value**
Model 1	178.88***	0.0000
Model 2	178.04***	0.0000
Model 3	179.76***	0.0000
Model 4	180.23***	0.0000
Wooldridge test for autocorrelation	**F-test**	**p-value**
Model 1	502.01***	0.0000
Model 2	653.75***	0.0000
Model 3	842.28***	0.0000
Model 4	463.36***	0.0000

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Diagnostic tests indicate that the panel data set used in this study exhibits cross-sectional dependence, heteroskedasticity, and autocorrelation. To address these issues, Driscoll-Kraay standard errors (Hoechle, 2007) are applied, as they provide robust standard errors against both time-series autocorrelation and cross-sectional dependence in panel data. This approach enhances the reliability of estimates obtained from classical fixed-effects and random-effects models. Additionally, all variables are used in the first differences to mitigate the risk of spurious regression due to the non-stationary characteristic of some of the variables. Examining the pairwise relationships between the dependent variable and each regressor in first differences, rather than in levels, still allows for an exploration of the impact of globalisation on social expenditures — the focal point of the study — through changes over time, without loss of generality.

In panel data analysis, the Hausman test is used to determine whether a fixed-effects or random-effects model is more appropriate. The null hypothesis states that the random effects model is consistent and efficient, while the alternative hypothesis suggests that the fixed effects model should be preferred. A p-value above the chosen significance level indicates that the null hypothesis cannot be rejected, supporting the use of the random effects model.

The estimation results reported in Tables 7-9 all favour the random effects model. Table 7 presents results using the broadest globalisation index, while Table 8 focuses specifically on economic globalisation. Both tables report estimates from both fixed and random effects models to facilitate a comparison of how each model accounts for unobserved heterogeneity across countries. The similarity in coefficient estimates suggests that controlling for time-invariant country-specific characteristics in the fixed effects model does not lead to substantively different conclusions compared to the random effects model.

Since this pattern holds for Table 9, which examines trade and financial globalisation separately, fixed effects estimates are omitted for brevity and to facilitate comparison between the sub-components of economic globalisation. In all estimations, statistical significance is assessed using Driscoll-Kraay standard errors.

Table 7: Estimation Results for Overall Globalisation (Model 1)

Dep. var.: Δsocexp	**Fixed Effects**			**Random Effects**		
	Coef.	Std.Err.	p-value	Coef.	Std.Err.	p-value
Δkofgl	0.218***	0.039	0.000	0.233***	0.059	0.001
Δgrwth	-0.216***	0.042	0.000	-0.224***	0.036	0.000
Δunemp	0.259***	0.066	0.002	0.260***	0.064	0.001
Δqog	-24.583***	5.490	0.001	-20.408**	8.139	0.027
Δtfr	3.617***	1.013	0.004	3.575***	0.844	0.001
	Hausman test (p-value) = 0.8269					
	N (country) = 17; T (year) = 12; N×T (observations) = 204					

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Estimations in Table 7 suggest a positive association between changes in the overall globalisation index (Δkofgl) and the GDP share of social expenditures (Δsocexp), indicating that greater changes in globalisation are linked to larger changes in social spending as a share of GDP. The coefficient estimate for the shift in overall globalisation is positive and statistically significant at the 1% level in both the fixed effects (FE) and random effects (RE) models. A one-point increase in the globalisation index compared to the previous year is associated with a 0.233 percentage point increase in the ratio of social expenditures to GDP, on average, all else being equal. Thus, higher public social spending appears to serve as a compensatory mechanism for the potential adverse effects of globalisation, as observed in the 2008-2019 data for 17 OECD countries.

The control variables capturing cyclical variations in public social expenditures exhibit the expected signs. The coefficient estimates for changes in the economic growth rate (Δgrwth) and unemployment rate (Δunemp) are statistically significant, with negative and positive signs, respectively. Specifically, the RE coefficient estimate of –0.216 for growth suggests that a one percentage point increase in real GDP growth leads to a 0.21 percentage point decrease in social expenditures, while a 1 point increase in unemployment increases spending by approximately 0.26 percentage points—both indicating strong countercyclical responsiveness. These findings suggest that governments slow the growth in social spending during economic expansions but accelerate it through social protection and unemployment benefits to counteract the adverse effects of economic downturns, as reflected in rising unemployment rates.

Finally, the statistically significant negative coefficient on Δqog suggests that improvements in the quality of governance are associated with more limited increases—or even reductions—in public social expenditures as a share of GDP. Given that the governance index ranges from 0 to 1, the RE coefficient estimate of –24.583 implies that even small gains in governance quality can lead to noticeable declines in the relative size of social spending, possibly reflecting institutional efficiency. The change in total fertility rate (Δtfr) yields a positive significant coefficient (3.575), indicating that rising fertility places substantial upward pressure on social expenditures through family- and child-related programmes.

Table 8: Estimation Results for Economic Globalization (Model 2)

Dep. var.: Δsocexp	**Fixed Effects**			**Random Effects**		
	Coef.	Std.Err.	p-value	Coef.	Std.Err.	p-value
Δkofec	0.308***	0.057	0.000	0.294***	0.044	0.000
Δgrwth	-0.224***	0.041	0.000	-0.227***	0.029	0.000
Δunemp	0.228***	0.058	0.002	0.230***	0.062	0.002
Δqog	-23.545***	5.294	0.001	-21.411***	7.215	0.009
Δtfr	3.043**	1.234	0.031	3.043	6.933	0.016
	Hausman test (p-value) = 0.8865					
	N (country) = 17; T (year) = 12; N×T (observations) = 204					

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Economic globalisation, a more narrowly defined aspect of overall globalisation that excludes its social and political dimensions, affects social spending similarly to overall globalisation but with slightly stronger estimated effects, as shown in Table 8. The coefficient estimate for the change in economic globalisation (Δkofec) is positive and statistically significant at the 1 % level, with a value (RE coefficient = 0.294) that exceeds the corresponding Δkofgl estimate in Table 7. Specifically, the RE coefficient of 0.294 indicates that a one-point increase in the economic-globalisation index is associated with a 0.29-percentage-point rise in social expenditures relative to GDP, underscoring a heightened fiscal sensitivity to economic integration. The estimated impacts of economic growth, unemployment, and governance quality remain entirely consistent with those reported for the broader globalisation model. In addition, the coefficient on Δtfr indicates that rising fertility exerts appreciable upward pressure on social expenditures through family- and child-oriented programmes. Collectively, these findings highlight that the economic dimension of globalisation exerted a particularly prominent influence on public social spending across the 17 OECD countries in the sample during the post-2008 period up to the eve of the COVID-19 pandemic.

Table 9: Estimation Results for Trade and Financial Globalization (Model 3 and 4)

Dep.var.: Δsocexp	**Random Effects**			**Random Effects**		
	Coef.	Std.Err.	p-value	Coef.	Std.Err.	p-value
Δkoftr	0.133***	0.032	0.002			
Δkoffi				0.285***	0.074	0.003
Δgrwth	-0.216***	0.029	0.000	-0.235***	0.034	0.000
Δunemp	0.220***	0.065	0.004	0.295***	0.071	0.002
Δqog	-21.196**	7.205	0.013	-18.366**	7.840	0.039
Δtfr	3.637***	0.886	0.002	2.991**	1.347	0.048
	Hausman test (p-value) = 0. 8437			Hausman test (p-value) = 0. 9208		
	N (country) = 17; T (year) = 12; N×T (observations) = 204					

***, **, and * denote significance at 1%, 5%, and 10% levels, respectively

Estimations based on the two subcomponents of economic globalisation reinforce previous findings, again showing statistical significance at the 1% level in the random effects estimations in Table 9. A notable difference emerges between the estimated effects of trade and financial globalisation on public social expenditure. Specifically, the coefficient estimate for Δkoffi (0.285) is significantly larger than that for Δkoftr (0.133), suggesting that public social spending policies are more responsive to changes in financial globalisation than to trade globalisation. This means that a one-unit increase in economic globalisation leads to more than twice the increase in social expenditures compared to a similar rise in trade globalisation, underscoring the substantial fiscal consequences of global capital integration. Furthermore, the estimated effect of economic globalisation reported in Table 8 appears to be primarily driven by financial globalisation. The similarity between the coefficient evidences this estimates for Δkofec in Table 8 and Δkoffi in Table 9, whereas the forecast for Δkoftr is notably smaller than both.

In addition, the coefficient estimates for economic growth and unemployment remain consistent with their previously reported implications for the responsiveness of public social expenditures to economic expansions and downturns. Similarly, the inference drawn from previous estimations remains unchanged for the quality of governance. For instance, the RE coefficient for Δunemp reaches 0.295 in the financial globalisation model, the highest among all specifications, indicating that welfare responsiveness to labour market distress is extreme under global economic pressure. Likewise, the coefficient on Δtfr is positive and statistically significant in both specifications (RE coefficient = 3.637, p-value = 0.002 for trade globalisation; RE coefficient = 2.991, p-value = 0.048 for financial globalisation), indicating that higher fertility persistently intensifies budgetary pressures through family- and child-oriented expenditure programmes.

Only random effects estimations are reported in Table 9 for the sake of clarity and parsny, as the fixed effects models yield nearly identical coefficient patterns and significance levels. Given the lack of substantive divergence between model outputs and the Hausman test results (p-value = 0.8437 and p-value = 0.9208), reporting both would not enhance interpretive value but instead complicate the comparison between the trade and financial subcomponents of economic globalisation. Thus, the random effects model is retained as the baseline specification, consistent with Tables 7 and 8.

Random effects estimations for four dimensions of globalisation (overall, economic, trade, and financial) provide statistically significant evidence that increases in public social expenditures are associated with changes in globalisation across 17 OECD countries between 2008 and 2019. On the one hand, Canada, New Zealand, the United Kingdom, and the United States exhibit strong market-oriented structures, while on the other hand, Denmark, Finland, and Sweden follow social democratic models. Despite this heterogeneity, our estimations reveal a strong positive association between globalisation indices and public social expenditures in a cross-country context. This suggests that as globalisation progresses, governments increase public social spending to address the challenges or opportunities posed by globalisation. This expansion in social expenditures may serve as a compensatory measure to mitigate the adverse effects of globalisation, an adaptive response to changing economic conditions, or a direct policy adjustment aimed at aligning social protection systems with global trends. Although the effectiveness of these policies remains a debatable issue, it is an area that warrants further research.

Conclusion

This study examines how different dimensions of globalisation (general, economic, trade, and financial) influence social expenditures in 17 OECD countries from 2008 to 2019. The findings indicate that globalisation is positively associated with social spending, supporting the compensation hypothesis, which suggests that states expand welfare provisions to offset the risks of globalisation. Notably, the sample period, spanning the aftermath of the 2008 global financial crisis but ending before the disruptive impact of the COVID-19 pandemic, provides a unique context for analysing these effects. This timing is crucial, as it allows the study to isolate the impact of globalisation on social expenditures without the distortions caused by the extraordinary fiscal demands of the pandemic.

The empirical analysis reveals that economic globalisation, particularly financial globalisation, exerts the most decisive influence on social expenditures. The results suggest that while trade openness has a positive effect, it is financial integration that drives most of the observed increase in public social spending. This highlights the pressures governments face in managing capital mobility and market fluctuations, which can necessitate expanded social protections to counterbalance economic uncertainties.

These findings align with prior studies such as Bretschger and Hettich (2002), who also observed that capital account liberalisation and trade openness lead to transformations in the structure and size of social spending. Similarly, Santos and Simões (2021) found a general positive effect of globalisation on social expenditures, especially in education-related domains. The relatively more substantial impact of financial globalisation observed in our study contributes to this literature by emphasising capital market dynamics as a core transmission mechanism.

A key observation is the strong link between unemployment and social expenditures. As job losses increase, so does the demand for social assistance, reinforcing the need for policies that protect vulnerable groups during economic downturns. Meanwhile, economic growth tends to reduce the relative share of social expenditures in GDP, as improved employment conditions lessen immediate welfare needs. However, neoliberal tendencies can limit redistributive policies, underscoring the role of pro-labour forces and trade unions in ensuring a fair distribution of economic gains. The consistency of these cyclical patterns with the compensation hypothesis confirms previous findings in the literature that social expenditures operate as automatic stabilisers in advanced economies.

The study also highlights the significance of institutional quality in influencing the effectiveness of social policy. The empirical findings indicate that countries with stronger governance structures experience a minor increase in public social expenditures, suggesting that well-functioning institutions enhance the efficiency of resource allocation. Institutional reforms that promote anti-corruption, transparency, and accountability can improve the impact of social spending without necessitating substantial budgetary increases.

These findings underscore the need for policymakers to strike a balance between economic and social priorities. The strong and consistent link between globalisation and social expenditures suggests that governments actively adjust welfare policies to address globalisation-induced inequalities and financial insecurities. Expanding active employment programs and job training initiatives can strengthen social protection while maintaining fiscal sustainability. In this regard, policy responses that build institutional resilience and promote inclusive labour markets may prove essential for sustainable social protection strategies in the context of globalisation.

In particular, policies targeting labour market adaptability and social insurance coverage for those most exposed to global market risks should be prioritised. Governments may also consider indexing certain welfare transfers to economic globalisation indicators to adjust protection mechanisms in line with external shocks automatically.

However, the analysis is limited to the 2008–2019 period, before the outbreak of the COVID-19 pandemic. This timeframe was selected to capture the structural dynamics of globalisation and welfare policies before the onset of extraordinary fiscal responses. Given the scale of the pandemic's economic and social consequences, the findings should not be generalised to the post-2020 period without caution.

Ultimately, ensuring that globalisation benefits broader society requires adaptive, inclusive, and well-governed social policies that safeguard economic security while promoting equitable growth. Rather than leading to welfare retrenchment, globalisation appears to have contributed to the expansion of social spending, underscoring the critical role of state intervention in mitigating the disruptive effects of global economic integration. Future research could extend the analysis by incorporating data from the post-2020 period to examine whether the relationship between globalisation and social expenditures has undergone structural shifts in the aftermath of the COVID-19 crisis.

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