Globalization and Welfare Compensation: Disentangling the Ties that Bind
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The relationship between economic openness and welfare policies in industrialized countries has long been of interest to and increasingly divides students of politics and economics. Several lines of research once suggested that greater openness poses economic risks that inspire demands for welfare policies as compensation, such that openness and welfare are mutually reinforcing, at least for some countries and times. With the flood of attention to “globalization,” however, this conventional wisdom has given way to disagreement. Some scholars worry that globalization has unleashed political and economic forces—such as exit opportunities for investors—that constrain the very compensation that legitimizes it. Others counter that openness still inspires demands for welfare while opening few incentives to abandon generous welfare settings, because welfare can improve factor productivity, is inseparable from other investment attractions, or underlies corporatist bargains that buy labor peace. Still others suggest that globalization’s supposed positive and negative effects for welfare are overstated, because openness is less extensive and poses less risk than previously believed or is dwarfed by the thicket of domestic politics surrounding welfare states. All sides of this debate back their claims with an array of logic and evidence, both qualitative and increasingly careful quantitative study.

All three perspectives, however, overlook important details about the nature of openness, welfare effort, and the politics connecting them. Most analyses focus on aggregate conceptions of trade or capital openness affecting a polity. Yet economic theory and intuition suggest that the sources of competition might pose varying kinds and degrees of economic risk and dislocation—hence, varying demands for compensation. Similarly, all three perspectives focus on encompassing aggregations of welfare provision thought to be more or less affected by openness. Yet the groups left vulnerable or empowered by openness can be expected to look upon the many

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subelements of welfare as more or less significant sources of compensation or fetters on profitability.

I build on the intuition that political struggles connecting openness to welfare vary across different kinds of openness and different policies of welfare states. My first argument focuses on one way that different elements of openness may have varying effects on welfare policy. Building on standard trade theory, I argue that compared to general trade openness, import competition from developing countries will tend to spark more concentrated demands for welfare compensation and similar or less concentrated opposition to such compensation. I maintain that low-wage openness ought to inspire more welfare expansion or less contraction than general openness.

The second argument focuses on how and to what extent globalization sparks demands for compensation and responses from producers/investors that vary across policies of the welfare state. I argue that groups put at risk by greater openness will demand more public spending generally but will tend to focus most on active and passive labor market policies, less on health care, and less still on retirement and family benefits geared to the elderly and youth dependents. I also argue that investors and exposed producers will tend to respond to greater openness by opposing most expansions of the public economy but will make productivity and cost calculations that favor labor training and relocation policies, do not favor family and retirement programs, and strongly oppose passive labor-market policies (such as unemployment relief).

These varying responses to greater openness should spark four different patterns of compensation politics and, hence, have varying implications for different elements of welfare provision. First, for welfare programs subject to strong compensation demands and investor support or acceptance—such as job training and relocation assistance—openness should inspire harmonious, one-sided politics that expand welfare effort. Second, for welfare elements diffusely connected to compensation demands and fostering higher investor concern—such as elderly, health-care, and family benefits—openness should inspire different one-sided politics that retrench welfare. Third, for programs subject to strong compensation demands and high investor hostility—such as passive labor-market policies—openness should spark more combative politics whose outcomes depends on exogenous political forces like the power of Left parties. Fourth, for welfare elements remote from both compensation demands and investor fears—such as infrastructure, capital, and education spending—greater openness should spur few political struggles and little change. In short, greater economic openness should constrain some elements of the welfare state, spur others, and leave still others unaffected.

I develop and test these claims in three steps. First, I review the controversy over globalization and welfare compensation, emphasizing the tendency to overaggregate and oversimplify welfare, globalization, and the political struggles connecting them. Second, I begin to “unpack” the welfare-globalization nexus by articulating how low-wage competition has different policy consequences than developed-country competition and how demands from vulnerable groups and responses from produc-
ers vary across different elements of the welfare state. Third, I evaluate the argument using longitudinal data for eighteen OECD countries on spending for various welfare policies and on various measures of openness. This evidence provides preliminary support for the argument and suggests directions for qualitative and quantitative research to further disentangle the political ties that bind openness to welfare.

**Globalization and Welfare in Contemporary Debate**

Scholarly interest in the relationship between economic openness and the public economy has deep roots in the study of international and comparative political economy. In 1944 Karl Polanyi, in *Great Transformation*, analyzed how industrializing societies respond to the expansion of self-regulating markets with “countermovements” that stem the reach of such markets or establish policies to mitigate their human and environmental costs.¹ His analysis inspired an array of international and comparative political economy scholarship focused on the interplay between markets and policy “countermovements,” with several studies suggesting that greater openness sparks social risks that fuel demands for more expansive welfare, and that welfare expansion legitimates more openness.² They were less clear, however, about the politics underlying this harmonious connection. The most influential studies saw the connection intertwined with corporatist intermediation, Left governments, and strong unions. But precisely how such conditions mediate ties between openness and welfare was left largely unexamined. The studies also said little to distinguish whether openness could cause, not just facilitate maintenance of, welfare expansion. Supporting evidence focused on crossnational comparisons that skirted the longitudinal question of whether changes in openness inspired changes in welfare.

In the last decade, dissatisfaction with such ambiguities in the academic world conspired with deepening integration in the real world to renew interest in the welfare-globalization nexus. This interest has sparked lively and fruitful debate among three broadly competing perspectives on welfare and openness—the views that (1) globalization and welfare are in tension, (2) they can continue to be mutually reinforcing, and (3) they do not much matter for one another. This debate nurtured a range of methodological and conceptual insights that clarify the connections between openness and welfare, that consider longitudinal as well as cross-sectional connections, and that even identify conditions mediating the relationship between openness and welfare. For all their advances, however, all three perspectives give little attention to the politics connecting openness and welfare and say little in particular about how different aspects of openness and different welfare policies are

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likely to affect socioeconomic groups differently, mediating how and to what extent openness influences welfare compensation.

**Globalization and Welfare in Tension**

The first perspective worries that globalization and welfare compensation, once mutually reinforcing, are now in tension as economic interdependence has deepened and public economies have matured. This view is expressed in the eloquent, if theoretically and empirically weak, writings of journalists and “kiss and tell” captains of industry and finance.\(^3\) It also is more carefully expressed in a range of political economy scholarship: Paulette Kurzer characterizes social democracy as under siege by increasing interdependence; Wolfgang Streeck emphasizes the welfare-constraining effects of European integration; John Gerard Ruggie anticipates a gloomy future for “embedded liberalism”; Ethan Kapstein laments the general plight of “workers in the world economy”; and Dani Rodrik cautiously suggests how globalization may have “gone too far.”\(^4\)

Although these “pessimists” offer varying logic and evidence to flesh out tensions between welfare and openness, the main claims are threefold. First, greater liberalization and openness in trade and investment promise aggregate benefits but also cause significant economic insecurity, volatility, and dislocation for at least some citizens in advanced economies.\(^5\) These burdens, in turn, deepen and broaden political demands to expand government programs that may directly or indirectly indemnify workers and firms from the risks of openness.\(^6\)

Second, globalization poses new economic and political constraints on the provision of such welfare compensation. Capital and trade openness erode fiscal and monetary autonomy to directly address the risks of openness and to underwrite welfare spending.\(^7\) They also open exit opportunities for producers of tradable goods and investors that increase the political power of capital owners. Openness increases competitive pressures on exposed sectors that raise productivity concerns, generally focusing policy attention on the competitive needs of investors and producers. More particularly, it can punish producers and countries operating under more generous welfare regimes, which imply a higher tax burden, more regulatory hurdles, labor-market rigidities, and a less docile labor movement.\(^8\) Finally, the international institutions overseeing liberalization—such as the European Union (EU) and the World Trade Organization (WTO)—have formal rules that discourage some elements of national welfare without fostering supranational alternatives.\(^9\)

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7. See Kurzer 1993; and Huber, Stephens, and Ray 1997.
Third, some scholars take the final step in arguing that the combination of social insecurity and diminished capacity to respond spells backlash. Taking another page from Polanyi, they speculate that undermining welfare legitimacy might push vulnerable societies to call for economic closure, isolationism, and political instability and extremism.\textsuperscript{10} Recent scholarship justifies such speculation with evidence that historically the alternatives to welfare-embedded openness have been economic autarchy or authoritarian political exclusion.\textsuperscript{11}

Those emphasizing tension between openness and welfare have contributed several conceptual and empirical innovations. They clarify how greater liberalization and flows in trade, finance, and production might unleash forces that constrain as well as inspire welfare compensation. Rodrik’s work, in particular, adds subtlety to the empirical contributions of the pessimists.\textsuperscript{12} Although there is significant positive correlation among cross-sectional measures of openness and welfare for OECD countries, pooling this data with longitudinal measures suggests the opposite: Trade openness is significantly correlated with sizable reductions in consumption and social transfers; so is capital openness, though less so; and the interaction of trade and capital openness in combination is correlated with even more significant reductions in such spending.\textsuperscript{13} Other pessimists offer qualitative empirics to deepen this set of findings.

These studies, despite their importance, say little to distinguish among the range of welfare programs and kinds of openness thought to have such important consequences for one another. Most of these studies, for instance, distinguish capital openness from trade, and sometimes consider their interaction. But none distinguish between foreign direct investment (FDI) and portfolio investment, or between low-wage and high-wage trade. The treatment of spending efforts is similarly broad. Rodrik, for instance, offers cross-sectional evidence that in OECD countries openness has been a stronger stimulus to social security than to government consumption, including military and education spending, with a “more tenuous” connection to mitigating the risks of openness. He also points out that in developing economies “where social security and welfare systems are difficult to set up,” more general programs might “perform an insurance function.”\textsuperscript{14} These distinctions do not go very far, however, in probing which elements of welfare are most relevant to the needs of vulnerable groups, or which most anathema to international investors and producers.

A few “pessimist” entries offer a more variegated view of how globalization affects welfare, arguing that it does not constrain so much as refocus the public economy.\textsuperscript{15} These analysts claim that globalization constrains the Keynesian wel-

\textsuperscript{10} See Ruggie 1994; Kapstein 1995; and Rodrik 1997.
\textsuperscript{11} Boix and Adsera 2000.
\textsuperscript{12} Rodrik 1997 and 1998.
\textsuperscript{13} Rodrik 1997, 62.
\textsuperscript{14} Ibid., 58.
\textsuperscript{15} See Jessop 1993; and Cerny 1995.
fare state and the microeconomic emphasis on pension, disability, health-care, and other programs that weigh down investors and exposed producers; it refocuses welfare effort toward a more Schumpeterian “competitor” or “work-fare” state emphasizing education and training programs that promote competitive adjustment to the winds of more open capitalism. These insights recognize how openness might have different implications for different elements of welfare effort, but only through an underspecified functionalist logic, essentially predicting what Robert Reich recommends in *Work of Nations*. They say little, in particular, about how globalization might affect political demands and power in a way that has variable effects for different elements of welfare, and they offer little empirical investigation.

Globalization and Welfare Still in Harmony

In direct reaction to the pessimist emphasis on tension between globalization and welfare, a second perspective emphasizes continued harmony, at least under some conditions. This view, most prolifically developed by Geoffrey Garrett and several collaborators, embraces the claim that greater openness poses insecurities that fuel demands for welfare compensation; in fact, this work deepens the idea by investigating how these insecurities foster new constituencies for Left parties seeking electoral advantage. But where the pessimists emphasize the fetters on demanded compensation, “optimists” identify reasons why international markets might accept or even reward it. For instance, following endogenous growth theory, many interventions associated with the welfare state, from infrastructure investments to training, may enhance total factor productivity. Even where they do not, welfare or regulatory conditions might be inseparable from otherwise attractive investment climates. And welfare compensation might create social stability or be the currency of compromises that buy wage moderation and labor peace, all of which mitigate the competitive disadvantages of welfare.

These claims fuel optimism that the old harmony between openness and welfare can still hold, at least under some political and institutional conditions. Most importantly, “Left-labor power” represents such conditions, mediating whether openness constrains or spurs welfare compensation. Polities combining Left-partisan orientation (proportion of Left cabinet portfolios and legislative seats) and union “encompassment” (union density and centralization) generally provide such com-

pensation, and facilitate wage moderation that, with or without an explicit quid pro quo, mitigates investment flight and macroeconomic punishment.²²

To support their view, optimists rely on both longitudinal and cross-sectional evidence. Some findings directly conflict with pessimist empirics, such as on how openness affects tax burdens.²³ But the findings focused on openness and welfare spending are not always so in conflict, showing positive correlation in cross-sectional and modestly negative correlation in cross-sectional-time-series analyses—though less negative and more mixed than, for instance, Rodrik’s quantitative findings or Kurzer’s qualitative comparisons.²⁴ The most interesting empirical contribution, however, concerns the enabling role of Left-institutional conditions: trade and, especially, capital openness correlate positively with spending among countries scoring high on Left-labor power, but negatively among countries with low Left-labor power.²⁵

Garrett and his collaborators go further than anyone else in disentangling the ties that bind openness and welfare effort, especially in analyzing how labor-market and partisan institutions mediate the relationship between openness and welfare. They do not, however, go far beyond the pessimists in considering how varying aspects of openness and welfare might have varying relationships. Their work focuses on the same aggregate welfare categories as previous scholarship—social security transfers, government consumption, and industry subsidies.²⁶ Yet there is little explicit reasoning about even these programs having differential politics in the face of openness, let alone about further divisions among government programs. With respect to openness measures, contributors muster evidence that capital openness might have more expansive consequences for welfare than does trade, and Garrett and Deborah Mitchell provide the literature’s most disaggregated conception of globalization, distinguishing FDI, portfolio investment, capital openness, trade, and low-wage imports.²⁷ But they again offer little conceptual argument about varying welfare policy implications of varying dimensions of openness, and their empirical findings culminate in the general claim that the consequences of globalization are complicated.

**Globalization and Welfare Unrelated**

A third perspective on openness and welfare challenges both the optimists and pessimists, urging that globalization does not much affect welfare one way or the other. One strand of this perspective argues that openness is less extensive than

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²³. See Quinn 1997; Swank 1998a; and Garrett 1998.
²⁶. See Quinn 1997; and Swank 1998a. Garrett and others also consider tax policy, particularly how capital movements influence tax burdens to strengthen fiscal underwriting of a welfare state. Garrett 1998.
contemporary hype suggests. Here, globalization might be dislocating in principle but in reality has not deepened to a point that it creates big changes, nor to the point that it constrains macroeconomic or microeconomic sovereignty.28

A second strand casts doubt on the idea that greater openness poses significant risk, inequality, or dislocation for industrialized societies. For instance, some proponents of this view emphasize that trade with developing countries may incite the strongest distributional conflict, but that such trade is very small compared to the less divisive commerce with other developed countries sporting similar factor profiles.29 Building on these insights, Torben Iversen and Thomas R. Cusack offer statistical evidence that globalization poses less employment, wage and growth risk, or volatility in OECD countries, and that any correlation between openness and welfare—whether positive or negative—may be spurious.30 Instead, their evidence points to a more domestic culprit behind risks and demands for expanding the public economy: deindustrialization—a domestically driven decline in manufacturing and agriculture—and a concomitant rise in service employment. These arguments, thus, dismiss the risks commonly thought to link openness and welfare.

A third strand focuses on political and institutional conditions that render moot or mediate any strong connection between openness and welfare. The main insight is that whatever the dislocation caused by openness, the political demand and supply of welfare benefits is more heavily influenced by country-specific partisan changes, institutional constraints, and “policy feedback” endogenous to the development of welfare programs.31 For instance, Paul Pierson emphasizes new politics of welfare, where the accretion of benefits creates new constituencies for and learning about welfare that fundamentally distinguish the politics of welfare retrenchment from those of expansion.32 One implication is that welfare politics are mostly about domestic struggles tied to the historical development of a country’s welfare, not to exogenous economic developments, be they deindustrialization or globalization.

Pushing this logic further, Duane Swank’s recent work has examined how globalization’s welfare effects are mediated by domestic-political institutions, especially character of interest representation in the polity (corporatism versus more decentralized representation), the formal organization of decision-making authority (proportional representation versus majoritarian, single-member districts), and the structure of welfare state institutions themselves (solidaristic versus means-tested programs).33 The more corporatist, proportional representations and solidaristic

29. See Cline 1997; and Lawrence and Slaughter 1993. Income inequality or unemployment, they maintain, stems more from factor-biased technological innovation and other domestic developments. Rodrik, Leamer, and others counter that trade has less-noticed marginal and indirect effects that cause insecurity and inequality. Rodrik 1997, Leamer 1997.
32. Pierson 1996.
institutions and welfare settings create political incentives and power to rebuff forces of retrenchment and to even expand welfare in the face of openness.

The various studies emphasizing the lack of connection between globalization and welfare make both theoretical and empirical contributions. The main theoretical contribution is to rule out simplistic links and to focus attention on the thicket of institutions, interests, ideas, and historical sequence of a country’s welfare development, all of which complicate any connection between openness and welfare. The empirical contributions include refining the quantitative techniques applied to the issue, revealing a much weaker association between openness and welfare after taking into account the strong effects of deindustrialization on welfare expansion.\(^\text{34}\) Others highlight the importance of research focused on less quantifiable causes (such as learning and policy feedback) and effects (benefit eligibility and scope rather than simple spending).\(^\text{35}\) And Swank offers quantitative evidence suggesting that globalization can modestly constrain welfare in decentralized institutional settings but not in more centralized settings.\(^\text{36}\)

But arguing that welfare politics are more domestic than international obscures the possibility that globalization and welfare might be more strongly connected if one were to break down the independent and dependent variables. Much welfare policy analysis disaggregates welfare programs across and within industrial societies, but rarely is this more variegated study applied to the globalization debate. And Iversen and Cusack’s important critique understandably takes the optimist and pessimist views on their own terms, focusing on openness and welfare aggregates without considering whether the politics underlying them might differ such that some aspects of globalization more significantly affect some elements of welfare.

In sum, the surge of interest in globalization has sparked growing debate about whether openness spurs, constrains, or has little to do with welfare compensation, generating much insight into what connects public economies to international economic life. Yet all sides underemphasize the political underpinnings of that connection, and overaggregate conceptions of both welfare and openness. This is even true for the works of Garrett and Swank that consider how domestic institutional arrangements mediate the influence of globalization. This is a problem because intuition and empirical research both suggest that different kinds of openness spark different politics and that different welfare programs are subject to different politics. For instance, those denying close links between welfare and openness themselves emphasize that inter-industry trade between developed and developing economies likely has different distributional consequences than trade among developed economies. And the extensive scholarship on welfare on which all the perspectives draw suggests that the array of programs constituting the public economy have distinct politics. It is not much of a leap to suspect that the connections between welfare and openness will vary across elements of welfare and

34. Iversen and Cusack 2000.
35. See Pierson 2000a; and Berger and Dore 1996.
openness. If so, overlooking this variation may unnecessarily sharpen existing lines of debate over the welfare-globalization nexus. Herein lies the need to study how politics connecting openness to welfare might vary depending on the aspect of globalization being considered and on the aspects of welfare provision that might compensate for globalization’s risks.

The Argument

To further disentangle the complex connections between openness and welfare, I focus on two ways that the politics can vary across elements of openness and welfare. I distinguish between general trade openness and low-wage trade, and among government programs that more or less directly and immediately aid vulnerable groups and that are more or less costly to exposed producers and investors. The argument may begin to reconcile some of the debate over the welfare-globalization nexus, suggesting that whether openness and welfare are in tension, in harmony, or unrelated depends not only on domestic institutions but also on the interplay of varying aspects of openness and the welfare state.

*Exposure to Low-wage Versus Developed-country Competition*

Economic globalization involves liberalization and greater flows of trade and portfolio and direct investment. Although very few studies actually analyze the matter, most presume that each of these elements of globalization affects welfare effort in different, though largely reinforcing, ways. An obvious next step is to consider further distinctions within trade and capital flows, on the premise that they might have different distributional consequences affecting welfare politics.

Among the most obvious distinctions is trade with developed versus developing countries. As suggested earlier, political economists commonly believe that the domestic consequences of trade between developed and developing countries with very different factor profiles are not the same as those of trade among developed economies with similar profiles. The former generally involves inter-industry trade fueled by differences between country profiles and is thought to pose absolute gains for owners of the abundant factor(s) of production and losses for the owners of the scarce factor(s). Developed economies relatively abundant in capital and high-skilled labor, and scarce in un- and semi-skilled labor, tend to import products intensive in the use of un- and semi-skilled labor, and they tend to export those intensive in capital and skilled labor. Such inter-industry trade elicits higher employment and earnings for capital and high-skill workers, and lower and more volatile employment and earnings for those in less-skilled, labor-intensive industries. To the extent that workers and capital can be redeployed across sectors, these

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37. Frieden and Rogowski 1996.
gains and losses spread to broader classes—losses for less-skilled workers and gains for capital generally.\(^{38}\) Whatever the exact gains and losses, the distributional consequences are likely to be strong and to spark intense conflict.

Trade among developed economies, however, tends to be based not so much on differences and comparative advantages but on increasing returns to scale, learning, or other economies. Such trade tends to result in gains for established, large producers, and losses for smaller start-ups (upstarts). These losses generally take the form of more modest adjustment costs incurred by moving between firms of different size, region, and experience within a sector, not the higher adjustment costs incurred by workers and firms when changing sectors in inter-industry trade. The winners and losers of intra-industry trade will, in any event, tend to divide groups within sectors, not between sectors or classes. The result is that intra-industry trade among industrialized countries with similar factor endowments will tend to have more muted distributional consequences.\(^{39}\)

The varying distributional effects of trade between developed and developing countries should, in turn, have different implications for the politics of welfare compensation. All other things equal, the sharper wins and losses stemming from developing-country competition should spark stronger demands in industrialized countries for government policies that compensate for the risks of such openness. The losers with a concentrated interest in mobilizing for action may look to welfare provisions of various kinds—not just to protectionism. Conversely, intra-industry trade with other developed economies can be expected to elicit relatively less conflict and, hence, less demand for welfare compensation on either side of the winner-loser aisle.

Yet the effect of “low-wage” versus “high-wage” trade on internationalized producers and investors and on their attitudes toward compensation is less clear cut. The greater distributional consequences of inter-industry trade with low-wage partners may sharpen investors and producers’ political opposition to trade protectionism but not to welfare efforts. In fact, in industrialized countries the effect of welfare on producers facing competitiveness in inter-industry trade is unclear. One can surmise from the trade literature that inter-industry trade with low-wage areas favors price competition, while intra-industry trade with developed trade partners favors quality or other conditions. This might make producer groups facing increasing inter-industry competition more sensitive and, hence, opposed to expanding welfare compensation.\(^{40}\) However, one can also surmise that specialization encouraged by inter-industry pressures might make welfare compensation irrelevant to or even supportive of productivity and competitiveness of home producers. The

\(^{38}\) Hiscox 2001.

\(^{39}\) Alt et al. 1996. Intra-industry trade adjustment might pose strong gains and losses, such as big shifts in automobile or airframe market share that dislocate or enrich entire regional economies. But such trade generally entails less concentrated and divisive adjustment given its divisions within rather than between well-organized sectors or classes.

\(^{40}\) Garrett and Mitchell 2001.
question, beyond the scope of this study, is how important, good or bad, welfare efforts are to the competitive advantage of developed-country tradable producers and to comparative advantage generally.

Regardless of the competitiveness implications of welfare under inter- and intra-industry trade, however, footloose investors and exposed producers facing developing-country ties may more readily accept welfare compensation demands as a way to defuse protectionist alternatives. The higher protectionist and welfare demands likely to emerge from low-wage rather than from high-wage competition should incline competitive producers to accommodate welfare compensation as a preferable alternative to protectionism. Finally, the off-setting incentives of investors and internationally oriented producers imply diffuse interests in opposing or supporting expanded welfare, leaving differences among demands for welfare compensations to determine outcomes for low-wage versus high-wage openness.

The net effect of these off-setting incentives is that liberalization and greater openness to low-wage competition will incite sharper demands for, and not much stronger opposition to, the welfare state than high-wage competition. Thus low-wage trade will produce greater expansion, or less contraction, of welfare programs than overall trade.

HYPOTHESIS 1: COMPARED WITH GREATER OVERALL TRADE, MORE LOW-WAGE TRADE AS A PROPORTION OF OVERALL TRADE SHOULD ELICIT STRONGER POLITICAL DEMANDS FOR, BUT ROUGHLY THE SAME OPPOSITION TO, WELFARE COMPENSATION, LEADING TO GREATER EXPANSIONS OR LOWER REDUCTIONS IN WELFARE EFFORT.

This hypothesis does not say that the proportion of low-wage openness spurs welfare effort while general trade openness constrains it; it says only that low-wage openness will be relatively less constraining and more spurring. It also does not preclude the likelihood that other kinds of openness have different, yet possibly more important, implications for the politics of welfare effort. But it begins to develop the hunch that different faces of economic openness have different implications for welfare politics.

Different Elements of Welfare Provision

Such variation can also be expected to cut the other way. Globalization, whatever its face, can be expected to have varying implications for different elements of welfare effort. Identifying these implications requires looking beyond distinctions between civilian consumption and social transfers, or between the “competitor state” and the Keynesian “welfare state.” It requires deriving expectations about the following political links connecting openness to welfare: (1) how openness will spark demands for welfare compensation that are stronger for some elements of welfare effort than for others; (2) how international investors and producers (and their government champions) will see some elements of welfare as more compromising and costly.
than others; and (3) how these demands and responses imply distinct patterns of political struggle, and hence outcomes, for different spending programs.

**Vulnerable groups and the demand for welfare compensation.** Whatever the aspect of globalization, the economic risks and dislocation associated with greater capital or trade liberalization and openness tend to fall on less-skilled workers and owners of specific assets, especially those tied to labor-intensive, exposed sectors. These workers (and firms, to some extent) will likely expect all aspects of the public economy to address inequality and insecurity associated with openness. Even defense spending can offer potential sources of labor-market demand to insecure groups. And certainly retirement, health-care, and disability benefits that lower longer-term problems and insecurities should help indemnify groups from the risks of openness. But among various programs, one can expect the demands of groups facing the risks of openness to vary.

I argue that the closer the connection of a program to the direct and near-term needs of working people made vulnerable by openness, the more concentrated the demands from those people and their political champions for its expansion in the aftermath of openness. Labor-market programs generally provide the most immediate and direct relief for vulnerable groups: active labor-market programs (job relocation assistance, job training, and public employment) and passive labor-market programs (unemployment insurance) directly address the immediate concerns of groups in internationally vulnerable sectors. They are direct in that they focus explicitly on the dislocation associated with economic openness, and immediate in that they address the needs for adjustment and assistance at the same time as, or very soon after, feared dislocation.

In contrast, other social expenditures address the needs of such vulnerable groups only indirectly and/or in the longer term from the point of view of active working people. These include welfare efforts that constitute the lion’s share of industrial-country welfare expenditure, especially such programs as (1) retirement/elderly benefits (old-age cash payments, elderly services, elderly disability, and survivor’s insurance) focused on elderly dependents; and (2) family cash and service benefits, such as the erstwhile Aid to Families with Dependent Children in the United States, focused on child dependents. Other benefits, such as health care, youth, occupational disability, and education, are somewhere between the immediate and direct applicability of labor-market provisions, and the more indirect and/or long-term applicability of safety nets for youth and the elderly.

An example may clarify this logic. During political fights over U.S. trade liberalization, vulnerable groups have either spearheaded or accepted some aspects of welfare provision as compensation, but not others. Vulnerable labor groups and their governmental champions have repeatedly focused their compensation demands
on labor-market programs like Trade Adjustment Assistance (TAA), not on the many other elements of welfare effort. During preparation of the 1974 Trade Reform Act, labor-friendly Democrats went so far as to reject a Nixon administration offer to expand general social security assistance as a substitute for the less generous but more targeted TAA.42

**Investors, competitive producers, and responses to welfare compensation.** Greater openness should elicit among investors, exposed producers, and their government champions resistance to or acceptance of welfare that also varies across elements of such welfare. In the face of expanded economic openness, mobile investors and competitive producers will find their exit options and political power enhanced and their need to consider international competitiveness sharpened. In general, this will lead them to use both exit and voice to resist most expansions of the public economy, since all such expansion can deepen the tax burden, introduce labor-market rigidities, raise interest rates, strengthen the bargaining power of labor, and undermine flexibility to adjust to international economic opportunities and competition. But just as vulnerable groups ought to see different welfare programs as having varying relevance to their needs, investors, producers, and their national champions ought to see different elements of the public economy as varying in their costs and (un)desirability.

I focus on how different elements of the public economy, and of welfare in particular, vary in their overall costs, in the concentration of tax burdens they impose, and most importantly in their contribution to total factor productivity. Recognizing that particular employers and investors will make widely varying judgments of programs based on these and other criteria, some generalizations are possible. For reasons that may have little to do with openness, welfare provision in industrialized countries has traditionally focused heavily on pension programs and health-care expenditures. These often consume most spending on social security.43 Unemployment insurance programs have tended to be somewhat smaller, and except in certain periods in certain social democratic countries, active labor market policies have tended to be much smaller in scale and scope. This hierarchy constitutes a starting point for struggles over openness and welfare, suggesting that demands for compensation are likely to be resisted more when they expand programs constituting the greatest burden on overall taxation or budgets. This implies stronger resistance to pension and health-care compensation than to active labor-market provisions.

Different elements of welfare, moreover, draw on different sources of revenue. Some tend to draw on general revenue sources, such as income or consumption taxes, others on various taxes that fall disproportionately on investors and producers, such as payroll taxes (to the degree that these are not passed on to employees and

42. Burgoon 1998.
43. See OECD 1996; and Huber, Stephens, and Ray 1997.
consumers through lower wages and higher prices). The funding sources for various welfare elements vary across countries and time, but generally labor-market benefits disproportionately burden investors and employers. Some retirement, health-care, and disability benefits, and even family benefits, are underwritten by such revenue sources, but the costs are commonly spread across the polity through income, consumption, or other less targeted taxes. This stratification suggests that investors, producers, and their government champions will tend to be more hostile to labor-market welfare compensation than to other kinds of compensation.

Finally and most importantly, different elements of welfare can be expected to have different implications for total factor productivity. Drawing on new growth theory some scholars emphasize that parts of the public economy garner support rather than punishment from international financial markets because the public economy can provide general productivity-improving benefits that markets tend to underprovide.\footnote{Garrett 1998.} This growth literature, however, is quite specific about which elements of public economies tend to be conducive to such productivity improvement, and which less so. Financial markets are likely to favor welfare efforts that improve economic adjustment, research and development, infrastructure, and human capital.\footnote{See Barro 1991; Romer 1994; and Grossman and Helpman 1994.} This research implies that globalization might inspire economic and political pressures from investors and producers to expand education and active labor-market policies focused on adjustment, as well as some government consumption and capital spending.

Other elements of welfare provision, however, offer fewer such productivity benefits and may thus be less favorably received in the face of openness. Among social policies, these are likely to include retirement, family, and health-care benefits, and, perhaps most obviously, passive unemployment insurance and other labor-market programs, all of which do less to encourage economic adjustment while introducing more labor-market rigidities.\footnote{Barro 1995.} Recent research reminds us that in some cases these productivity disadvantages can be offset by a range of advantages. For instance, retirement benefits might enable productivity-enhancing adjustments through early retirement schemes; and unemployment insurance, plant-closure, and other labor-market regulations might protect employer investments in firm-specific training.\footnote{On employer opposition to retirement retrenchment, see Ebbinghaus 1998; and Ebbinghaus and Hassel 2000. On unemployment insurance and dismissal laws, see Swenson 1998; and Estevez-Abe, Iversen, and Soskice 1999. I thank an anonymous reviewer for reminding me of these important insights.} But these productivity advantages depend on the programs and employer practices in a given country at a given time.\footnote{See Swank and Martin forthcoming; and Pierson 2000b.} Over longer periods of time and across countries, the potential productivity benefits of programs focused on children and the elderly are overshadowed by how these programs do little to encourage sectoral adjustments that globalization necessitates. And the benefits of such programs do
not change the expectation that training and adjustment measures are relatively more attractive to capital.

Combining these tendencies, one can roughly estimate the range of responses portfolio and direct investors, globally competitive producers, and their government champions should have to different policies when faced with greater openness. These groups should offer the least resistance to, and possibly initiate, expansions in education, job training, and relocation programs, despite the concentrated tax burden that the latter might impose. Investors and producers should be more suspicious toward family, health-care, and elderly/retirement programs with higher price tags and market distortions, and generally fewer productivity benefits. The various investor and producer groups should be most hostile toward passive labor policies that offer little productivity benefit, impose potentially significant labor-market distortions, and concentrate the tax burden on employers.

**Combining vulnerable-group demands and investor responses.** The preceding claims are themselves testable hypotheses, but by combining the welfare demands from vulnerable groups with the responses from internationalized producers, we can identify particular “downstream” politics and policy consequences of globalization. Doing so predicts different kinds of distributional conflict connecting openness to elements of welfare. As a generalization, I expect four different patterns of political struggle over welfare in the face of greater economic openness. More speculatively, I also predict the welfare politics and policies likely to emerge from these varying kinds of conflict. Figure 1 summarizes these outcomes.\(^\text{49}\)

For welfare policies where openness sparks strong demands for compensation and a relatively accommodating stance from investors/producers, harmonious politics will spur welfare effort; this includes job training and relocation assistance and to a lesser extent education policies. Groups facing insecurities associated with greater openness should concentrate their demands on expanding the scale and scope of labor-market policies generally, and investors and producers should accommodate policies like training and relocation assistance that might also improve total factor productivity. In the face of greater openness, such one-sided politics should lead to expanded spending for training and relocation assistance and somewhat less expansion for general education (top-left quadrant of Figure 1).

**Hypothesis 2: Greater openness should inspire one-sided politics over programs for job training and relocation; vulnerable groups should demand, and investors, producers, and government representatives should accommodate, expansion of such programs.**

Where openness sparks few demands and little opposition, we should see little conflict or activity surrounding globalization. Examples of such policies are public

\(^{49}\) Positioning on the matrix is only suggestive, with *relative* positions mattering more than absolute positions.
economy programs not commonly associated with welfare effort, such as infrastructure and capital investments by government and to a lesser degree defense spending. Those dislocated by openness should offer little focused effort on the expansion of such programs, and investors and producers responding to openness will be modestly accommodating of existing spending levels. This should elicit little political struggle in response to greater economic openness and hence little change in the scale and scope of the programs as openness increases (bottom-left quadrant of Figure 1).

**Hypothesis 3**: Greater openness should inspire little political struggle over programs for government infrastructure, defense, or capital investments; openness should elicit few demands for such programs from vulnerable groups; and investors, producers, and government representatives should accept the status quo.

Where openness breeds both strong demands from the vulnerable and strong opposition from investors and competitive producers, acute political conflict should follow. Examples are passive labor-market policies, such as unemployment insurance; public-employment components of active labor-market policies; and labor policies loosely related to spending but that immediately and directly affect vulnerable groups, such as regulations on layoffs and union rights. In the face of increasing openness, vulnerable groups can be expected to focus demands for mitigation and compensation on passive labor-market policies as fervently as they concentrate on active labor-market measures. At the same time, investors and competitive producers will recognize such policies as
inimical to their competitive position and as placing the burden of payment on their shoulders. The result should be sharp political conflict. The implications for the actual scale and scope of such welfare policies are uncertain and depend on the interests, ideas, and institutions that mediate the conflict, such as Left-labor power, which should favor the vulnerable groups (see top-right quadrant of Figure 1).

**HYPOTHESIS 4:** **GREATER OPENNESS SHOULD ELICIT MORE CONFLICTUAL POLITICS WITH UNCERTAIN IMPLICATIONS FOR PASSIVE LABOR-MARKET PROGRAMS AND REGULATIONS; INTERNATIONALLY VULNERABLE GROUPS SHOULD MAKE STRONG DEMANDS FOR COMPENSATION, AND INVESTORS AND OTHERS SHOULD STRONGLY OPPOSE SUCH COMPENSATION.**

For welfare programs sparking only muted demands for compensation, but significant competitive pressures for restraint from investors and producers, there should be less conflictual policy retrenchment. The closest examples of such a combination are some of the largest elements of welfare effort: cash and services for elderly/retired citizens and their dependents and for families with youth dependents. Most of these programs offer benefits not immediately or directly addressing the needs of groups made insecure by greater openness, making these groups focus their compensation demands elsewhere. However, the relatively heavy costs and relatively low total productivity benefits of such programs should inspire greater opposition and demands for retrenchment from investors and producers trying to respond to international competitive pressures. The result should be one-sided politics in which producers, investors, and their government champions use exit and voice to scale back spending on these elements of welfare (bottom-right quadrant of Figure 1).

**HYPOTHESIS 5:** **GREATER OPENNESS SHOULD ELICIT ONE-SIDED POLITICS, LEADING TO SOME RETRENCHMENT OF FAMILY, RETIREMENT, AND DISABILITY BENEFITS; VULNERABLE GROUPS SHOULD MAKE MODEST DEMANDS FOR COMPENSATION, AND INVESTORS AND THEIR CHAMPIONS SHOULD MAKE RELATIVELY STRONG DEMANDS FOR ROLLBACKS.**

These predictions, again have both strong and soft versions. The strong versions anticipate expansion, constraint, or little change, whereas the softer versions anticipate openness to constrain or expand some elements of welfare relative to others. In either form, these “first-cut” arguments do not preclude the likelihood that openness has other political consequences that vary across other elements of policy.

To sum up, I expect the politics connecting openness and welfare to differ across different elements of welfare and openness. Compared to trade openness generally, higher proportions of low-wage competition should elicit stronger political demands for welfare expansion, less or similar opposition from the winners, and more expansive (or less restraining) consequences for welfare. All moves to greater economic openness should elicit varying distributional consequences, and hence different politics and outcomes across different elements of welfare. Most generally, moves to greater openness should spark (1) one-sided politics that expand job
training and relocation policies; (2) nonpolitics that leave defense, infrastructure, and capital spending largely unchanged; (3) conflictual politics with indeterminate outcomes for passive labor-market policies; and (4) one-sided politics that retrench retirement-focused and family-focused welfare. The soft versions of these arguments expect relative, if not absolute, differences in the welfare-globalization nexus.

The Evidence: A First Cut

As a preliminary test of these arguments, I analyze panel data on the relationship between openness and various elements of welfare spending for eighteen OECD countries for the period 1961–94, with more disaggregated data for 1980–94. Such testing directly addresses the mode of analysis dominating controversy over the welfare-globalization nexus and provides a more rigorous exploration than descriptive statistics. But it has important limits worth mentioning. The available data capture differences between benefits for retirement, family, and health care and those for training and relocation; as argued earlier, these benefits are subject to distinct changes in the face of openness—one-sided retrenchment in the case of the former, one-sided expansion in the latter. But they do not allow the disaggregating of spending for defense, infrastructure, and general education that the argument suggests ought to be least affected by openness. The indeterminate hypotheses about passive labor-market assistance, moreover, must be analyzed in light of exogenous conditions affecting the relative power of vulnerable groups and exposed investors and producers. Most important, the focus on spending tests the most “downstream” and speculative implications of the argument, rather than the political preferences and actions of groups or their political interaction. A more complete investigation, in short, requires more data and detailed analysis of exogenous political conditions, as well as qualitative examination of the more upstream political struggles connecting openness to welfare. By offering an overview of the relationships among elements of openness and welfare putatively subject to the most starkly different politics, the present empirics are a useful starting point.

Methodology

The cross-sectional time-series data cover eighteen countries and track as many as thirty-four years (1961–94) of various measures of openness, welfare effort, and controls relevant to analyzing the welfare-globalization nexus. This implies a maximum of 612 observations, but the number is always smaller given shorter time series available for some countries, and given the more limited time series of more disaggregated spending measures (1980–94). A brief overview of these parameters sets up the analysis and describes the variables involved in the globalization-welfare nexus. This points to the need for regression estimation as a more revealing quantitative test of the arguments.

The independent variables: Openness. The independent variables are aspects of economic openness in trade and investment. Some of these measures are well-explicated in the literature, others less so. They are (1) trade openness, imports plus exports as a percentage of GDP;\textsuperscript{51} (2) low-wage imports (from non-OECD countries excluding OPEC) as a percentage of total imports, one indicator of the degree to which trade is inter-industry instead of intra-industry;\textsuperscript{52} (3) FDI exposure, inflows and outflows of FDI as a percentage of GDP;\textsuperscript{53} and (4) portfolio flows, assets and liabilities of international bonds, and equities as a percentage of GDP.\textsuperscript{54} I assume that all these measures of openness elicit conflict with implications for welfare politics but that proportionately higher low-wage trade should elicit more expansion or less contraction in welfare effort than does general trade openness.

Table 1 summarizes the basic changes and relative scale of these measures of openness. The finding is twofold. First, and now obvious, most show significant increases in openness, even between 1970 and 1995, a subset of the period for which we have statistics. Second, the pattern for the proportion of low-wage imports is more mixed but has declined in the narrow majority of OECD countries.

The dependent variables: Welfare efforts. The dependent variables are measures of welfare effort and government spending, all expressed as percentages of GDP. Some are standard and well-studied: (1) total government spending, including current government outlays, purchases of land and intangible assets, and gross capital formation; (2) government consumption, including spending at all levels of government on education and health care; and (3) social security transfers, which cover elderly, health-care, and family benefits, unemployment insurance, and social assistance grants. All are drawn from OECD \textit{Historical Statistics}, 1960–94 and OECD \textit{National Accounts}, various years.

Table 2 summarizes the country differences in these measures. These aggregate measures all sizably increased from 1970 to 1995. This is consistent, of course, with the view that greater openness should inspire expansion. And insofar as these increases coincide with general decreases in the proportion of low-wage imports summarized in Table 1, the expansionary trend is inconsistent with the argument that low-wage competition inspires more welfare expansion or less contraction than general trade openness.

Crucial to my argument about the different elements of welfare are disaggregated measures of welfare effort as a percentage of GDP. Such measures, comparable across industrialized countries, come from OECD data on “social expenditures,” with subcategories relevant to many of the present arguments.\textsuperscript{55} Despite the limited

\textsuperscript{51} OECD \textit{National Accounts}, various years.
\textsuperscript{52} Ibid.
\textsuperscript{53} IMF \textit{Balance of Payments Statistics}, various years.
\textsuperscript{54} Ibid.
\textsuperscript{55} OECD 1996 and 1998. More fine-grained data exist, but they are not comparable across countries or time. OECD 1998, 3.
time series for which data are available (1980–95), they capture elements of welfare effort that should be subject to the most starkly different globalization politics. I focus on five spending categories: (1) total social expenditure, which cuts across the “consumption” and “transfers” measures in that it includes most social security efforts plus health care and some education, and which encompasses the next several categories; (2) “job training and relocation assistance” (job training and employment services components of ALMP;56) (3) retirement assistance (old-age cash, elderly and disabled assistance, and survivor’s benefits); (4) family assistance (cash and services); and (5) health care (at the national level). The argument predicts that

56. This excludes three ALMP subcategories less focused on training and relocation for the dislocated: employment measures for the disabled, youth measures, and public/subsidized employment.
during times of trade openness one-sided politics spurs spending on training and relocation programs and constrains spending on retirement, family, and (to a lesser extent) health-care programs. Minimally, openness should correlate with bigger increases or smaller decreases in spending for training and relocation than for retirement, family, and health care.

Table 3 summarizes the country differences and changes in these more detailed spending measures. The table shows the relative size of the three components of welfare on which my argument focuses. Retirement benefits (old-age cash and benefits, elderly and disabled services, and survivor’s benefits) constitute the largest portion of total social expenditures in the sample. Health-care spending is second. Family assistance (cash and services) is substantial compared with other elements of welfare, but significantly smaller than retirement or health-care benefits. Training and relocation benefits represent by far the smallest component of social spending
considered here. Altogether, the three components are roughly two-thirds of the total social expenditures, making it important to compare the trends in the latter with the more specific components. Table 3 also shows that for most countries all spending measures grew over the period, and that the training and relocation effort grew the most (on average, 54 percent, compared to 23 percent for total social expenditures, 21 percent for retirement, 11 percent for health care, and 10 percent for family benefits). This is very modest evidence that openness inspires more growth in training and relocation benefits than in family, health-care, and retirement benefits.

Such descriptive statistics, of course, have limited value in assessing a welfare-globalization debate focused on claims that presume other conditions are unchanged, since these statistics cannot isolate the role of openness from a host of other influencing conditions. For instance, the suggestion that openness leads to more expansion of training than of other welfare segments might only reflect exogenous conditions that correlate both with training spending and with openness. Once again, this points to the need for more controlled statistical techniques.

### TABLE 3. Selected social expenditures as a percentage of GDP, 1980 and 1995

<table>
<thead>
<tr>
<th></th>
<th>Total social expenditures</th>
<th>Retired benefits</th>
<th>Health benefits</th>
<th>Family benefits</th>
<th>Training and relocation benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.7</td>
<td>15.7</td>
<td>4.0</td>
<td>3.73</td>
<td>4.57</td>
</tr>
<tr>
<td>Austria</td>
<td>22.6</td>
<td>26.2</td>
<td>11.93</td>
<td>13.73</td>
<td>5.31</td>
</tr>
<tr>
<td>Belgium</td>
<td>24.6</td>
<td>27.1</td>
<td>9.54</td>
<td>10.48</td>
<td>5.45</td>
</tr>
<tr>
<td>Canada</td>
<td>13.2</td>
<td>18.2</td>
<td>3.0</td>
<td>4.83</td>
<td>5.19</td>
</tr>
<tr>
<td>Denmark</td>
<td>27.5</td>
<td>32.1</td>
<td>8.9</td>
<td>10.79</td>
<td>5.80</td>
</tr>
<tr>
<td>Finland</td>
<td>18.9</td>
<td>32.0</td>
<td>6.6</td>
<td>10.82</td>
<td>5.14</td>
</tr>
<tr>
<td>France</td>
<td>23.5</td>
<td>30.1</td>
<td>10.39</td>
<td>13.0</td>
<td>5.95</td>
</tr>
<tr>
<td>Germany</td>
<td>23.7</td>
<td>28.0</td>
<td>11.14</td>
<td>11.44</td>
<td>6.96</td>
</tr>
<tr>
<td>Ireland</td>
<td>17.6</td>
<td>19.4</td>
<td>5.97</td>
<td>5.04</td>
<td>7.10</td>
</tr>
<tr>
<td>Italy</td>
<td>18.4</td>
<td>23.7</td>
<td>9.24</td>
<td>13.78</td>
<td>5.64</td>
</tr>
<tr>
<td>Japan</td>
<td>9.87</td>
<td>13.8</td>
<td>2.31</td>
<td>6.53</td>
<td>4.55</td>
</tr>
<tr>
<td>Netherlands</td>
<td>28.5</td>
<td>27.8</td>
<td>8.52</td>
<td>8.47</td>
<td>5.92</td>
</tr>
<tr>
<td>New Zealand</td>
<td>16.5</td>
<td>18.8</td>
<td>6.89</td>
<td>5.85</td>
<td>4.96</td>
</tr>
<tr>
<td>Norway</td>
<td>18.6</td>
<td>27.6</td>
<td>6.26</td>
<td>9.80</td>
<td>5.95</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.8</td>
<td>33.0</td>
<td>9.22</td>
<td>12.34</td>
<td>8.67</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14.0</td>
<td>21.0</td>
<td>6.23</td>
<td>7.52</td>
<td>4.30</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.3</td>
<td>22.5</td>
<td>7.35</td>
<td>7.86</td>
<td>4.89</td>
</tr>
<tr>
<td>United States</td>
<td>13.4</td>
<td>15.8</td>
<td>6.22</td>
<td>6.37</td>
<td>3.85</td>
</tr>
<tr>
<td>Unweighted average</td>
<td>19.48</td>
<td>24.04</td>
<td>7.43</td>
<td>9.02</td>
<td>5.57</td>
</tr>
</tbody>
</table>

*Note:* See text for definitions of categories.

*a* 1985 figures.

*b* 1987 figures.
Control variables. I consider a battery of controls to isolate the effects of various faces of openness on various faces of welfare. These include those commonly used in econometric investigations of the welfare-globalization nexus: (1) growth (percentage change in GDP), which is expected to be associated with less spending given the countercyclical quality of welfare effort as a percentage of economic activity;\(^{57}\) (2) per capita GDP, which is expected, given Wagner’s law, to underlie some level of wealth surplus associated with high welfare effort;\(^ {58}\) (3) dependency ratio, measured as the percentage of the population younger than fifteen years or older than sixty-four years, which should be positively correlated with spending on both retirement/elderly benefits and on family benefits (targeted at the elderly and youth, respectively);\(^ {59}\) (4) Left cabinet portfolios, measured as a percentage of cabinet portfolios controlled by Left parties, which should positively correlate with welfare effort;\(^ {60}\) (5) Christian Democrat portfolios, measured as a percentage of cabinet portfolios held by Christian Democrat parties, which should negatively correlate with welfare effort;\(^ {61}\) and (6) deindustrialization, the decline in manufacturing and agricultural employment, which Iversen and Cusack argue is the stronger predictor of welfare effort and when controlled for should vitiate significant correlation between openness and welfare.\(^ {62}\)

The estimation models. Using cross-sectional time series of the spending data—1961–94 for the aggregated measures, 1980–94 for the disaggregated—I estimate the relationships between openness and spending with ordinary least squares (OLS) fixed-effects estimation. Where missing values interrupted time series and for the 1980–94 comparisons across elements of welfare, I imputed missing values with the multiple-imputation AMELIA software to generate panels with less bias and inefficiency than list- or case-wise deletion and to make the estimations comparing disaggregated welfare programs more comparable.\(^ {63}\) All estimations include lagged dependent variables to address serial correlation and panel-corrected standard errors to produce unbiased standard errors in the face of heteroskedasticity, especially since time periods do not appreciably exceed the number of cross-sections.\(^ {64}\) Where regression diagnostics revealed heteroskedasticity to still be a problem, I used error-correction OLS models presuming heteroskedastic panels.\(^ {65}\) All estimations include dummy variables for country and year to

57. OECD Historical Statistics, various years.
59. See OECD National Accounts, various years; and Esping-Andersen 1990 and 1996.
60. Swank 1995.
61. Ibid.
62. I consider two measures of deindustrialization: one minus manufacturing and agricultural employment as a percentage of working-age population (generally ages 15–64) and as a percentage of general employment. OECD Labor Force Statistics, various years.
63. See King et al. 2000; and Honaker et al. 1999.
64. See Beck and Katz 1995; and Beck 1998.
65. Diagnostics suggest that none of the regressions needed AR(1) correction, though this or cross-panel heteroskedasticity corrections does not appreciably change the results.
assess fixed effects, particularly important for pooled data covering significant chunks of time for very different countries.

To consider the range of models prominently used in the literature, I used both base-level and first-difference estimation models. The former takes the following general form:

\[ WELFARE_{it} = \beta_a WELFARE_{it-1} + \sum \beta_b OPENNESS_{bit-1} + \sum \beta_c CONTROLS_{cit-1} + \sum \beta_d COUNTRY_{di} + \sum \beta_e YEAR_{et} + \mu_{it} \]

Here, the \( \beta \)'s are the parameter estimates for the independent, control, and country/year dummy variables, where the subscripts \( i \) and \( t \) denote the country and year of the observations, respectively. \( WELFARE_{it} \) is the dependent variable—spending on government, social security, training and relocation, family assistance, and so on. \( WELFARE_{it-1} \) is the lagged dependent variable. \( OPENNESS_{bit-1} \) are the trade, FDI, portfolio flows, and proportion of low-wage imports, measured in one-year lags to account for openness conditions that must percolate through group interests, interactions, and policy change. \( CONTROLS_{cit-1} \) are GDP per capita, GNP growth, partisan orientation, deindustrialization, unemployment, and dependency ratios, measured in one-year lags to account for delays in their effect on spending policies (except unemployment and growth percentage, which have less lagged consequences for spending proportions). \( COUNTRY_{di} \) and \( YEAR_{et} \) are the dummy variables for fixed effects.

The second estimation model follows recent investigations that distinguish short-from long-term effects by considering first-difference and base-level measures. Here, the model takes the following general form:

\[ \Delta WELFARE_{it} = \beta_a WELFARE_{it-1} + \sum \Delta \beta_b OPENNESS_{bit} + \sum \Delta \beta_c OPENNESS_{cit} + \sum \Delta \beta_d DEINDSTRLZTN_{dit} + \sum \beta_e DEINDSTRLZTN_{cit-1} + \sum \beta_f CONTROLS_{fit-1} + \sum \beta_g COUNTRY_{gi} + \sum \beta_h YEAR_{ht} + \mu_{it} \]

Here, the dependent variable is change in spending, measured as the difference between spending at \( t \) and \( t - 1 \). The openness and deindustrialization parameters include both change measures at time \( t \), to estimate short-term effects, and one-year lagged base-level measures, to estimate longer-term effects. Other controls—unemployment, growth, GDP per capita, dependency ratios, and partisan portfolios—enter only as lagged levels, since distinguishing their short-term effects is less

important; and like the first, this estimation includes both country and year dummies to account for fixed effects.

For each of these models, I use two sets of regressions to test my arguments. The first set focuses on the aggregate measures of welfare commonly focused on in the literature—total spending, government consumption, and social security transfers—and the less studied “total social expenditures” for both the longer period, 1961–94, and the more recent one, 1980–94. The 1980–94 period establishes a benchmark for comparing the more disaggregated spending measures available only for the shorter period. It also suggests whether the welfare-globalization relationship in the last fifteen years differs from that averaged over the thirty-four years from 1961 to 1994. Most important, it provides a long time period and most aggregated spending measures for considering the hypothesis that the proportion of low-wage openness is less constraining on or more spurring of spending than general trade exposure.

The second set of regressions focuses on the most disaggregated measures of welfare—training and relocation assistance versus family, health-care, retirement, and general social expenditures from 1980 to 1994. These zero in on the hypothesized differences between these two sets of welfare programs. The strong version of the expectation is that various measures of openness should yield increases in the training and relocation component of labor-market welfare but decreases in the family, retirement, and, to some extent, health-care welfare segments. The soft version is that openness should elicit larger increases or smaller decreases in training and relocation than in general social expenditures, which in turn should be less constrained or more spurred by openness than retirement, health-care, and family benefits.

Results

The results are shown in Tables 4 through 6. Table 4 presents the findings for the most aggregated focus on welfare effort, comparing the effects of openness between 1961 and 1994 and between 1980 and 1994. The results largely duplicate earlier efforts that include panel-corrected errors and country and year dummies. For both the longer and shorter time periods, the lagged dependent variables are highly correlated with the dependent variables, and statistically significantly, with the coefficients at about .90 for the longer periods, slightly lower for the shorter. The dummy variables for country and year (not shown in

67. For reasons of space, some results cannot be shown. The first-difference estimates with the most aggregate statistics are not shown. Nor are the most broken-down spending measures comprised by the “family,” “retired,” and “training and relocation” composites. These are consistent with the analysis, weaker in some cases and stronger in others. Finally, the tables do not show the country and year dummy findings, which are peripheral to the argument except as controls. The raw data, imputed panels, and full regression results are available from the author.
the table) are also highly correlated, revealing the importance of controlling for temporal and spatial effects.

Among the control variables, deindustrialization is significantly and positively correlated with two of the three spending measures for which the longer time-series data are available, but it is not systematically more correlated with spending than trade is, a finding only partly consistent with Iversen and Cusack’s main finding. In any event, deindustrialization in the more recent period is more weakly associated with government consumption and transfer spending. There are also few surprises with the other controls. Unemployment is correlated positively and significantly with three of four spending measures, but negatively and significantly in the longer series of government consumption. Growth is negatively and highly significantly correlated with all categories and time series of spending. Dependency rates were positively associated with social expenditures though weakly negative with transfers in the longer time period. Per capita GDP shows little association with spending (significant and very weakly positive only for total spending in the shorter period), perhaps reflecting the common level of development across the OECD sample. Finally, neither the Left nor the Christian Democrat control variable is significantly related to spending, with the coefficients mixed for Left portfolios and generally negative for Christian Democrat.

As for the openness measures, the results largely reproduce those of Rodrik and the most recent of Garrett and Mitchell; they slightly conflict with some of Iversen and Cusack’s findings. In three of the four measures of openness, we see a portrait of constraint. Trade is negatively correlated with all four general measures of welfare effort, with modest but statistically significant coefficients in all cases—suggesting also that trade openness has become more constraining of welfare in recent times than in the overall 1961–94 period. FDI flows were not significantly related to any of the measures in the longer period, though nearly significantly positive for transfers; such flows appear more constraining in the more recent period, modestly significantly for consumption. In contrast, portfolio flows appear to have become less constraining or even somewhat spurring of welfare effort in the more recent period, though none of the associations comes anywhere near significance except a very weakly significant and positive association in the more recent series of transfers.

Most important, the aggregate results support the argument that the proportion of low-wage imports should inspire more welfare expansion or less contraction than general trade openness. For the full 1961–94 time period, two of three coefficients for low-wage proportion are positive, indicating that increases in such proportions modestly elicit increases in general and transfer spending. And the low-wage coefficient (.036) for total spending is modest but statistically significant at the .05 level. This contrasts with the negative and significant

69. See Rodrick 1997; Garrett and Mitchell 2000; and Iversen and Cusack 2000.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Total spending</th>
<th>Government consumption</th>
<th>Social security transfers</th>
<th>Social expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged dependent variable (t - 1)</td>
<td>0.892***</td>
<td>0.712***</td>
<td>0.912***</td>
<td>0.818***</td>
</tr>
<tr>
<td></td>
<td>(44.855)</td>
<td>(16.844)</td>
<td>(52.255)</td>
<td>(26.400)</td>
</tr>
<tr>
<td>Trade (t - 1)</td>
<td>-0.020**</td>
<td>-0.063**</td>
<td>-0.007**</td>
<td>-0.019**</td>
</tr>
<tr>
<td></td>
<td>(-2.388)</td>
<td>(-2.518)</td>
<td>(-2.401)</td>
<td>(-2.913)</td>
</tr>
<tr>
<td>Percentage of low-wage imports (t - 1)</td>
<td>0.037**</td>
<td>0.017</td>
<td>-0.002</td>
<td>-0.003</td>
</tr>
<tr>
<td>FDI (t - 1)</td>
<td>0.036</td>
<td>-0.077</td>
<td>-0.007</td>
<td>-0.040*</td>
</tr>
<tr>
<td></td>
<td>(0.706)</td>
<td>(-0.876)</td>
<td>(-0.380)</td>
<td>(-1.755)</td>
</tr>
<tr>
<td>Portfolio flows (t - 1)</td>
<td>-0.006</td>
<td>0.010</td>
<td>-0.001</td>
<td>-0.002</td>
</tr>
<tr>
<td></td>
<td>(-0.916)</td>
<td>(0.982)</td>
<td>(-0.285)</td>
<td>(-0.833)</td>
</tr>
<tr>
<td>Deindustrialization (t - 1)</td>
<td>0.104**</td>
<td>0.175**</td>
<td>0.011</td>
<td>-0.004</td>
</tr>
<tr>
<td></td>
<td>(2.325)</td>
<td>(2.427)</td>
<td>(0.620)</td>
<td>(-0.256)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.062*</td>
<td>0.306***</td>
<td>-0.030**</td>
<td>-0.018</td>
</tr>
<tr>
<td></td>
<td>(1.809)</td>
<td>(3.898)</td>
<td>(-2.391)</td>
<td>(-0.925)</td>
</tr>
</tbody>
</table>
Globalization and Welfare Compensation

| GDP per capita | 0.022 | 0.000** | −0.008 | 0.000 | 0.008 | −0.000 | NA | 0.000 |
| (t − 1)       | (1.223) | (2.103) | (−1.029) | (0.751) | (0.969) | (−0.618) | (0.118) | |
| Growth percentage | −0.365*** | −0.393*** | −0.110*** | −0.152*** | −0.151*** | −0.227*** | NA | −0.250*** |
| Dependency rate | −0.002 | −0.033 | 0.005 | −0.065† | −0.023* | 0.045 | NA | 0.279*** |
| (t − 1)       | (−0.072) | (−0.191) | (0.463) | (−1.526) | (−1.771) | (0.646) | (2.919) | |
| Left portfolios | −0.003† | −0.000 | 0.000 | 0.001† | −0.001 | −0.000 | NA | 0.002 |
| (t − 1)       | (−1.436) | (−0.063) | (0.362) | (1.340) | (−1.093) | (−0.210) | (1.085) | |
| Christian Democrat portfolios (t − 1) | −0.004 | 0.004 | −0.000 | 0.002 | −0.002† | −0.001 | NA | 0.002 |
| Constant      | 0.474 | −0.075 | 2.098*** | 6.739*** | −1.211† | 1.483 | NA | −4.623 |
| (t − 1)       | (0.261) | (−0.010) | (2.847) | (3.473) | (−1.438) | (0.477) | (−1.066) | |
| No. of observations | 559 | 270 | 594 | 270 | 547 | 270 | NA | 270 |
| Wald χ² (43−61) | 73,188.45 | 12,805.39 | 58,710.85 | 36,061.53 | 81,257.69 | 17,903.59 | 35,068.63 |

Note: OLS coefficients, panel-corrected standard errors, estimated using STATA 6.0 (xtgls). Country and year dummies not shown.


***p < .01.

**p < .05.

*p < .10.

†p < .2.
coefficients for overall trade flows on all three general spending measures. For the narrower time period, the results are not as strong, since two of the four low-wage coefficients are negative, though very insignificant. But the low-wage coefficients and \( t \)-statistics certainly suggest a less negative relationship to welfare than holds with general openness.

Figure 2 clarifies this contrast but also reveals the modesty of the welfare effects of both low-wage and general trade. Focusing on total spending and social security transfers, with the former the only statistically significant
### Table 6. Varying kinds of openness and varying social expenditures, 1980–94, second estimation (t-statistics in parentheses)

<table>
<thead>
<tr>
<th>Variables</th>
<th>( \Delta ) Total social expenditures</th>
<th>( \Delta ) Retirement cash and services</th>
<th>( \Delta ) Health benefits</th>
<th>( \Delta ) Family cash and services</th>
<th>( \Delta ) Training and relocation benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged dependent level</td>
<td>-0.420**</td>
<td>-0.628***</td>
<td>-0.359***</td>
<td>-0.262***</td>
<td>-0.446***</td>
</tr>
<tr>
<td></td>
<td>(-7.784)</td>
<td>(-11.353)</td>
<td>(-7.704)</td>
<td>(-5.147)</td>
<td>(-9.059)</td>
</tr>
<tr>
<td>( \Delta ) Trade</td>
<td>-0.053**</td>
<td>0.006</td>
<td>-0.012†</td>
<td>-0.007†</td>
<td>-0.002</td>
</tr>
<tr>
<td></td>
<td>(-2.438)</td>
<td>(-0.453)</td>
<td>(-1.629)</td>
<td>(-1.312)</td>
<td>(-0.978)</td>
</tr>
<tr>
<td>Trade ((t - 1))</td>
<td>-0.065***</td>
<td>-0.030***</td>
<td>0.001</td>
<td>-0.008*</td>
<td>-0.002</td>
</tr>
<tr>
<td></td>
<td>(-3.644)</td>
<td>(-2.715)</td>
<td>(0.117)</td>
<td>(-1.778)</td>
<td>(-0.934)</td>
</tr>
<tr>
<td>( \Delta %) Low-wage imports</td>
<td>0.036</td>
<td>-0.014</td>
<td>-0.006</td>
<td>0.005</td>
<td>0.013***</td>
</tr>
<tr>
<td></td>
<td>(0.810)</td>
<td>(-0.504)</td>
<td>(-0.411)</td>
<td>(0.461)</td>
<td>(3.046)</td>
</tr>
<tr>
<td>Percentage low wage ((t - 1))</td>
<td>-0.022</td>
<td>-0.036*</td>
<td>-0.007</td>
<td>-0.001</td>
<td>0.009***</td>
</tr>
<tr>
<td></td>
<td>(-0.771)</td>
<td>(-1.966)</td>
<td>(-0.695)</td>
<td>(-0.151)</td>
<td>(2.914)</td>
</tr>
<tr>
<td>( \Delta ) FDI</td>
<td>-0.021</td>
<td>-0.006</td>
<td>0.003</td>
<td>0.017</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(-0.364)</td>
<td>(-0.169)</td>
<td>(0.132)</td>
<td>(1.179)</td>
<td>(0.046)</td>
</tr>
<tr>
<td>FDI ((t - 1))</td>
<td>-0.100†</td>
<td>-0.044</td>
<td>-0.018</td>
<td>-0.004</td>
<td>0.020***</td>
</tr>
<tr>
<td></td>
<td>(-1.621)</td>
<td>(-1.148)</td>
<td>(-0.872)</td>
<td>(-0.229)</td>
<td>(3.303)</td>
</tr>
<tr>
<td>( \Delta ) Portfolio flows</td>
<td>-0.005</td>
<td>-0.004</td>
<td>-0.003</td>
<td>0.004*</td>
<td>-0.000</td>
</tr>
<tr>
<td></td>
<td>(-0.081)</td>
<td>(-0.915)</td>
<td>(-1.113)</td>
<td>(0.974)</td>
<td>(-0.280)</td>
</tr>
<tr>
<td>Portfolio flows ((t - 1))</td>
<td>0.006</td>
<td>0.000</td>
<td>-0.003</td>
<td>0.004**</td>
<td>0.001†</td>
</tr>
<tr>
<td></td>
<td>(0.816)</td>
<td>(0.093)</td>
<td>(-1.114)</td>
<td>(2.291)</td>
<td>(1.324)</td>
</tr>
<tr>
<td>( \Delta ) Deindustrialization</td>
<td>-0.212***</td>
<td>-0.153***</td>
<td>0.010</td>
<td>-0.015</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(-4.011)</td>
<td>(-4.538)</td>
<td>(0.568)</td>
<td>(-1.101)</td>
<td>(0.061)</td>
</tr>
<tr>
<td>Deindustrialization ((t - 1))</td>
<td>-0.038</td>
<td>-0.062†</td>
<td>0.047***</td>
<td>0.002</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>(-0.833)</td>
<td>(-2.068)</td>
<td>(2.967)</td>
<td>(0.150)</td>
<td>(0.773)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.155***</td>
<td>0.033</td>
<td>-0.017</td>
<td>0.020*</td>
<td>0.011**</td>
</tr>
<tr>
<td>((t - 1))</td>
<td>(2.940)</td>
<td>(1.136)</td>
<td>(-1.055)</td>
<td>(1.762)</td>
<td>(2.458)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.000†</td>
<td>0.000†</td>
<td>0.000</td>
<td>0.000**</td>
<td>-0.000</td>
</tr>
<tr>
<td>((t - 1))</td>
<td>(1.745)</td>
<td>(1.633)</td>
<td>(1.008)</td>
<td>(2.181)</td>
<td>(-1.165)</td>
</tr>
<tr>
<td>Growth percentage</td>
<td>-0.165***</td>
<td>-0.076***</td>
<td>-0.016</td>
<td>-0.008</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(-4.303)</td>
<td>(-3.185)</td>
<td>(-1.250)</td>
<td>(-0.879)</td>
<td>(0.965)</td>
</tr>
<tr>
<td>Dependency rate</td>
<td>0.271**</td>
<td>0.041</td>
<td>0.002</td>
<td>0.062**</td>
<td>0.004</td>
</tr>
<tr>
<td>((t - 1))</td>
<td>(2.599)</td>
<td>(0.637)</td>
<td>(0.054)</td>
<td>(2.411)</td>
<td>(0.405)</td>
</tr>
<tr>
<td>Left portfolios</td>
<td>0.006**</td>
<td>0.002</td>
<td>0.000</td>
<td>0.001</td>
<td>0.000</td>
</tr>
<tr>
<td>((t - 1))</td>
<td>(2.325)</td>
<td>(1.091)</td>
<td>(0.225)</td>
<td>(0.997)</td>
<td>(0.587)</td>
</tr>
<tr>
<td>Christian Democrat</td>
<td>0.000</td>
<td>-0.001</td>
<td>-0.004*</td>
<td>0.001</td>
<td>0.001</td>
</tr>
<tr>
<td>portfolios ((t - 1))</td>
<td>(0.073)</td>
<td>(-0.371)</td>
<td>-1.825</td>
<td>(0.975)</td>
<td>(1.044)</td>
</tr>
<tr>
<td>Constant</td>
<td>-4.271</td>
<td>3.159</td>
<td>-0.831</td>
<td>-2.718**</td>
<td>-0.301</td>
</tr>
<tr>
<td></td>
<td>(-8.897)</td>
<td>(1.026)</td>
<td>(-0.473)</td>
<td>(-2.275)</td>
<td>(-0.633)</td>
</tr>
<tr>
<td>No. of observations</td>
<td>270</td>
<td>270</td>
<td>270</td>
<td>270</td>
<td>270</td>
</tr>
<tr>
<td>Wald ( \chi^2 ) ((48))</td>
<td>272.76</td>
<td>226.72</td>
<td>164.81</td>
<td>106.98</td>
<td>131.48</td>
</tr>
</tbody>
</table>

Note: OLS coefficients, panel-corrected standard errors, estimated using STATA 6.0 (xtgls). Country and year dummies not shown.


***p < .01.

**p < .05.

*p < .10.

†p < .2.
comparison relevant to the argument, the figure summarizes the predicted changes in total spending as one moves from the 5th through to the 95th percentile in the pooled sample distribution. The very modest correlation implies that moving from the entire sample’s 5th to 95th percentile in low-wage proportion (from 9 to 35 percent of total imports) increases total spending by a mere 0.95 GDP percentage points. In contrast, moving from the 5th to the 95th percentile in total trade openness (from 19 to 110 percent of GDP) decreases total spending by 1.85 GDP percentage points.

Thus, the general picture is of openness having modest and varying consequences for aggregate government spending efforts, negative for general trade, weakly positive for low-wage proportions, and mixed for portfolio and fixed investment. It also appears that trade and direct investment have become more constraining in recent times, whereas portfolio investment has become less so. All the results are quite modest, even compared with deindustrialization. But they do provide some support for the general argument that openness has varying spending consequences and for the particular argument that low-wage proportions are less constraining or more spurring of welfare than general trade openness.

Tables 5 and 6 summarize the study’s most important results, which broadly support the argument that openness sparks different politics—and different outcomes—for different elements of welfare effort. Table 5 summarizes the results

70. These predictions are generated by inputting the low-wage and trade variables at the 5th through 95th percentiles of the sample distribution, while setting all the other parameters at their means.
from the first estimation, focused on lagged base levels. Like the more general spending runs, lagged dependent variables were strongly correlated with all measures, with the coefficients smaller than for the longer time period. The various controls generally correlated with the various spending levels as predicted. Unemployment was positively associated with all measures except health-care benefits, and significantly so in three cases. Growth once again showed the countercyclical spending pattern but was not statistically significant for training and relocation spending. Per capita GDP had positive coefficients for most categories of spending, though weakly significant only for family cash and services and insignificantly negative for training and relocation. The dependency rates were positively correlated with most spending levels, significantly so only for total and family social expenditures. Finally, the partisan portfolio controls showed mixed and nearly nonexistent associations, except a modestly significant negative effect of Christian Democracy on health-care spending. Like the findings in Table 4 for the 1980–94 period, deindustrialization had a generally positive but more insignificant effect for most of the spending programs, except a quite significant spurring of health-care spending.

Table 5 also summarizes more evidence that the proportion of low-wage openness has more positive implications for welfare effort than general openness has. For all the more differentiated measures of welfare effort—retirement, family, health-care, and training and relocation benefits—the low-wage coefficients are either more positive or less negative than the general trade coefficients. The only statistically significant low-wage coefficient is positive, for training and relocation welfare. In contrast, general trade openness is statistically significantly correlated with reductions in welfare effort for two of the measures. Figure 3 reveals that, once again, the effects are very modest but greater than with the total spending numbers, and broadly consistent with expectations.\footnote{71. The figure’s comparisons include the low-wage proportion coefficient for social expenditures, even though it is statistically significant only above the .15 level.}

The most important results in Table 5 concern the consequences of openness for different elements of social spending. The table provides mixed but broadly supportive evidence of at least the softer version of the expected differences. On the one hand, openness measures are not more negatively or less positively associated with family, health-care, and especially retirement elements of welfare than are general social expenditures (or the broader measures in Table 4). On the other hand, the data in Tables 4 and 5 provide lopsided support for the view that training and relocation spending should be spurred by openness, and certainly for the view that they be more spurred or less constrained than retirement, family, health-care, or aggregate spending measures.

Looking first at the trade parameters, we see that the coefficients for general trade openness are negative and statistically significant for total social expenditures and for retirement benefits, negative but insignificant for family benefits, and insignif-
significantly positive for health-care benefits and training and relocation benefits. Three of the four program segments hypothesized to be more negatively or less positively associated with openness than with training and relocation spending fit even a strong version of the argument, including the only two statistically significant coefficients (see Figure 3). But health-care benefits, though far from statistically significant, are marginally more positively affected by openness than the training and relocation programs. Thus, the message is mixed but broadly supportive, especially if one compares the training and relocation results with those summarized in Table 4, where all the aggregate measures were significantly constrained by trade.

Second, low-wage imports are negatively associated, but statistically insignificant, with retirement and family welfare (as well as with government consumption and transfer spending for the same 1980–94 period summarized in Table 4), and weakly and insignificantly positive for total social expenditures and health-care benefits (and total spending in Table 4). In contrast, the low-wage proportion of imports has a weakly positive and statistically significant coefficient for training and relocation benefits (though the 0.95 confidence interval encompasses negative values). Figure 4 shows these results, including the modestly significant finding for health-care benefits.

In regard to investment openness, data on FDI flows consistently support the argument. Coefficients are negative though insignificant for all the comparable spending measures—not only for total social expenditures, family, health-care, and retirement benefits, but also for the more aggregated measures summarized in Table 4. And with government consumption, the constraining consequences of FDI from 1980 to 1994 are statistically significant. For training and relocation benefits,
however, FDI flows are significantly correlated with expanded benefits, at a .01 level of significance. These offsetting effects, however, are even more modest than for trade, as the predicted values suggest in Figure 5.

Finally, the results on portfolio flows are less one-sided but still broadly consistent with expectation. Portfolio flows tend to be positively associated with most of the aggregated and disaggregated measures in Tables 4 and 5 (except health-care benefits and government consumption), though none is statistically significant. Training and relocation spending, however, is both positively associated and statistically significant at the .05 level, though the coefficient is very weak (compared, for instance, with social security transfers and family benefits). Figure 6 summarizes these modest connections.

The findings in Table 6 suggest that the preceding results are robust to the first-differences estimation approach. Once again, the lagged spending variables (levels of spending at time t − 1) are highly negatively correlated with the dependent variables (first differences in spending at t), though the coefficients are lower than in the base-level estimations. The controls all have results broadly similar to those in the earlier estimations, though deindustrialization is here significantly negative for change in social expenditures and retirement benefits and for lagged retirement benefits.

Most important, the findings are robust on general trade versus proportion of low-wage trade and on the different elements of welfare effort. Beginning with the low-wage argument, the coefficients for change in trade are negative in all cases except retirement welfare, and they are significant for total social expenditures.
Change in low-wage proportion, however, correlates positively for three of the five measures, with the only statistically significant coefficient the .013 reading for change in training and relocation. The numbers for lagged base levels provide similar support: lagged trade levels have negative coefficients in most cases (except
health-care benefits), and significantly so for both total social expenditures and retirement benefits. Lagged low-wage proportions for most cases, however, are either less negatively related (for total social expenditures and family benefits) or more positively related (for training and relocation benefits and for health). The only exception is the negative low-wage coefficient for retirement benefits, though even here the correlation is less significant than the negative lagged coefficient for trade.

Turning to different elements of welfare, most of the evidence supports the argument. Changes in general trade have weakly negative coefficients for all the disaggregated measures, with the most negative coefficients and highest significance levels for total social expenditures, health-care benefits, and family cash and services. Trade change has the weakest negative coefficient for training and relocation benefits, and, except for retirement benefits, also the lowest $t$-statistic. The lagged trade levels show more significant results, all negative for total social expenditures, retirement benefits, and family benefits. The levels are also negative for training and relocation benefits, though much less so in terms of coefficient and significance levels. The one exception is the positive though very insignificant lagged trade coefficient for health-care benefits. This is not a perfect record but broadly supportive nonetheless.

The low-wage findings provide stronger support. Change in low-wage proportion is significant and positive only for training and relocation benefits, with other benefits split between insignificantly positive or negative coefficients. Lagged low-wage proportion is negatively correlated with total social expenditures, family, and retirement benefits—weakly significant for retirement benefits. However, lagged low-wage proportions correlate positively, and are more significant, with training and relocation spending.

The findings for FDI tell a similar though less one-sided story. Changes in FDI are insignificantly related to all spending categories, with the coefficient essentially zero for training and relocation benefits, negative for total social expenditures and retirement benefits, and only weakly positive for health-care and family benefits. Since the positive coefficient for family benefits is higher and more significant than for training and relocation, the findings basically contradict the expectation. But because these findings lack statistical significance in all cases, they only weakly challenge the argument. In any event, lagged FDI levels correlate with the various programs in ways that strongly support the argument: the coefficients are negative but insignificant for total social expenditures, and for the retirement, family, and health-care subcomponents. For changes in training and relocation spending, however, FDI levels have positive and highly significant effects (like the result in Table 5).

The findings for portfolio flows are the most mixed. Changes in portfolio flows show insignificantly negative coefficients for most of the changes in spending categories, including changes in training and relocation spending (though essentially zero). But the coefficient and significance level are lower for the latter, consistent with expectation. The exception is that changes in portfolio flows are weakly positive, though significant, for family benefits. Lagged portfolio flows are weakly
positive for most welfare measures except health but significant in the case of family and nearly so for training and relocation spending. Thus, training and relocation benefits appear to be somewhat less constrained or even spurred by portfolio investment compared with most social expenditures, though family benefits appear to be spurred more (similar to the base-level finding in Table 5).

The first-difference results, thus, also support a weak version of the argument that training and relocation welfare is less constrained (if not spurred) by various measures of openness than are total social expenditures, retirement benefits, or even health-care and family benefits. Once again, however, these broadly supportive findings need to be qualified by the modesty of the connections, and by how openness, in its various guises, does not seem to constrain retirement, health, and family welfare more than it does total expenditures.

Conclusion: Extending the Approach

Through this analysis I have attempted to disentangle the politics connecting welfare and openness in industrialized economies. I suspected that disagreements in contemporary scholarship about this relationship—that openness and welfare are increasingly in tension, that harmony is still possible, or that welfare and openness are unrelated—partly reflect an oversimplification of the politics involved. My suspicion rests on the observation that most studies of the welfare-globalization nexus focus on aggregate conceptions of openness and, especially, of welfare effort; my hunch is that a more disaggregated approach will reveal varying politics underlying that nexus.

I reasoned that compared with general trade openness, a larger proportion of low-wage imports should elicit stronger demands for, though not as much opposition to, welfare compensation, suggesting that low-wage openness yields more expansion or less contraction in welfare than general trade. I also reasoned that openness, whatever its form, ought to elicit varying compensation demands from vulnerable groups and responses from investors and internationally competitive producers; these combine to create four distinct patterns of politics surrounding different elements of welfare. Two of these predicted sharply contrasting outcomes for welfare policy: openness should spark one-sided politics that constrain family and retired welfare or one-sided politics that expand retraining and relocation benefits. The implications of these considerations are that different elements of openness and welfare may be in tension for some kinds of openness and some segments of welfare, in harmony for others, and wholly independent for still others.

I presented quantitative evidence as preliminary support for this approach. In general, the evidence shows that openness has a slight effect on welfare outcomes and that it is far from the most important determinant of welfare efforts in OECD countries. But the links between openness and welfare are meaningful and broadly consistent with a soft version of the arguments. The proportion of low-wage imports tends to have a more significant and positive effect on welfare compensation than
general openness, which has a more negative effect. Low-wage, FDI, and portfolio openness has a generally positive effect on training and relocation spending, and either a less positive or, more commonly, a negative effect on total social expenditures and retirement and, to a lesser extent, health-care and family benefits. Qualifying this picture are some important exceptions, especially that retirement, health, and family welfare tend to be no more or less constrained by openness than total social expenditures, and that the relationships are all very modest in terms of coefficients and significance levels. But the balance of the evidence, across quite different estimating approaches, supports my reasoning.

Although these results address only some of the hypotheses developed here, they have important implications for the way we think about and act on economic integration and its consequences for welfare policy. The argument and evidence, in general, suggest that the relationship between openness and welfare is more predictably variegated than existing scholarship has led us to believe. Different faces of openness may constrain some aspects of welfare provision, be less relevant to others, and spur yet others. Whether my approach can reconcile prevailing debate remains to be seen, especially given the limited scope of this study, yet the evidence suggests that the route is promising.

The findings have important implications for our understanding of the future of welfare efforts. For instance, they add micropolitical substance to and empirical justification for the functionalist claim that openness encourages a shift in the character of welfare efforts toward “competitor” welfare states that emphasize productivity and labor-market participation.\textsuperscript{72} The findings also suggest that openness encourages bigger changes in some “worlds” of welfare capitalism than in others.\textsuperscript{73} The “conservative,” Christian Democrat, welfare regimes—typified by the social policies in Austria, Germany, France, and Italy—have traditionally focused on family and retirement transfer policies of labor-market exclusion. In contrast, “Social Democrat” welfare regimes (such as in Sweden, Denmark, and Norway) and, in a more minimalist vein, “liberal” regimes (such as in the United States, the United Kingdom, and Canada) put higher priority on services, including education and labor adjustment policies. If transfers for the elderly and families are subject to retrenchment politics, while those for education and job adjustment services to more expansionary politics, conservative regimes face more substantial transformation than liberal and Social Democrat regimes. The evidence on this is mixed. Some studies find patterns of reform in continental welfare states toward more eligibility and other limits on transfer programs while maintaining or spurring active employment and some education measures.\textsuperscript{74} But preliminary quantitative evidence like that here paints a less supportive—or inconclusive—picture sensitive to different classifications of welfare regimes.\textsuperscript{75} The present analysis provides further impetus

\textsuperscript{72} See fn. 15.  
\textsuperscript{73} See Esping-Andersen 1990 and 1996; and Huber, Stephens, and Ray 1997.  
\textsuperscript{74} See Ferrara, Hemerijck, and Rhodes 2000; Martin 2000; and Scharpf and Schmidt forthcoming.  
\textsuperscript{75} Swank 2000.
for studying whether openness has predictably variable effects for different welfare capitalisms.

Refinement of the argument as well as its implications calls for further quantitative and qualitative research. Most narrowly, the argument needs to be subjected to analysis of longer time series, disaggregated at a level relevant to further disentangling the welfare-globalization nexus, such as on infra-structural, defense, and education spending. More generally, assessment requires study of the claims about political demands and struggles of various labor, investor, employer, and government groups that underlie the scale and scope of welfare programs—not just the spending measures far down the causal chain of welfare politics.  

Beyond this, the present arguments are part of a more general research agenda to disentangle the politics connecting welfare and openness. This requires conceptual innovation and empirical investigation of other differences in the nature of openness, such as relative investment flows to the developed and developing world, or in the various elements of welfare effort. It also requires investigating the relationship between openness and the various models of welfare capitalism. Most important, it requires deepening attention to the many exogenous domestic-political forces—both national and supranational institutions and ideas—that mediate welfare and openness politics. This article’s main ambition, in short, is to encourage continued research in all these directions.

References


76. See Hemerijck and Schludi 2000; and OECD 1999.

77. See Cameron et al. 2000; and Swank 2000.


