**Globalization in the Study of Comparative and International Political Economy**

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In their respective studies of globalization, both comparative and international political economists have noted the decline of the welfare state in majoritarian democracies with liberal market economies. They tend to disagree about how to interpret this development and what its implications are, however. Comparative political economists have argued this change is evidence that a period of *divergent reconfiguration* in the varieties of national capitalism is underway. International political economists have argued it represents an unraveling of the bargain of *embedded liberalism* with potentially dire consequences for the global economy. We synthesize these two views by examining evidence at both the macro-level of government spending and national trade openness and the micro-level of individual attitudes towards trade. The macro evidence supports the claim that liberal and corporatist countries are responding to globalization in different ways, but our micro results raise serious doubts about the long-term political viability of the liberal response.

In the summer of 2002, the United States Congress ended an eight-year stalemate and granted trade promotion authority to the President. The legislation included an important concession made to free trade opponents—an increase in trade adjustment assistance that is expected to provide $12 billion over the next decade to workers who lose their jobs as a result of more intense international competition. Clearly this compromise is a response to increasing criticism of the White House's free trade agenda, and it seems to reflect the political importance of tying domestic compensation to policies that increase a country's exposure to the international economy. But can unemployment insurance alone prevent a greater domestic backlash against free trade in countries like the United States?

Political economists have debated the nature of the relationship between trade openness and the size of government for some time. Against the backdrop of welfare state retrenchment in several of the world's largest economies, this debate has taken on unprecedented significance recently. Interestingly, one of the most prominent divisions in this controversy seems to separate international and comparative political economists. This is surprising given that most believe the sharp line between international and comparative political economy has been erased in recent years.

Many international political economists have argued that, by providing a smaller social safety net, some governments are neglecting their obligations under the historic bargain of embedded liberalism, which could ultimately bring dire consequences for the global economy (Ruggie 1996, Kapstein 1996). Workers expect their governments to protect them from the vagaries of the international economy, and their support for free trade is dependent upon receiving this protection. For this group of scholars, the expansion of trade adjustment assistance to displaced workers is a welcome, albeit limited, change in American social policy that should be part of a broader strategy to address growing domestic dissatisfaction with globalization. Unfortunately, this group tends to ignore the role that domestic institutions play in determining how governments can respond to globalization.

By contrast, a number of influential comparativists have argued that the shrinking welfare state in the liberal market economies is evidence that a period of "divergent reconfiguration" in the varieties of national capitalism is underway (Kitschelt et al. 1999). They argue that the success of policy tools like

unemployment insurance is highly contingent on the institutional environment in which these tools are used. In liberal market economies, the welfare state creates problems of moral hazard and undermines labor market performance over the long-term (Garrett 1998a). For this camp, welfare state expansion will not provide an effective solution to the growing problem of economic insecurity experienced in countries with decentralized labor markets like the United States. While these authors make a convincing case in many respects, new survey evidence suggests that the bargain of embedded liberalism is alive and well, even in the liberal market economies (e.g., Scheve and Slaughter 2001). Thus, the divergent paths argument lacks a strong micro-political foundation.

Does economic openness make big government a political necessity irrespective of a country's political and economic institutions? Previous attempts to resolve this debate empirically have met with little success, but such attempts have relied for the most part on macroeconomic data that fails to demonstrate the causal links in either argument. Very few have attempted to connect the macro and micro evidence that is available. We attempt to advance this debate through a cross-level analysis of country and individual-level data, with particular attention to how the structural country-level variables highlighted in previous work affect individual attitudes towards trade. In this way, our theoretical framework and empirical results bridge the gap between comparative and international political economy in the study of globalization.

In the next section, we review the competing claims discussed above. We then evaluate the merits of these two arguments by analyzing country-level data on trade openness and the size of government. We pay particular attention to the previously ignored selection problems in this debate, and find that the impact of external risk on government spending does, in fact, depend on a country's labor market institutions. Governments in countries with decentralized, competitive labor markets do not respond to increased exposure to external risk with more social spending. Moreover, we believe this is due to the social costs associated with providing insurance. However, this does not necessarily imply that the combination of free trade and small government is politically sustainable over the long term. We therefore suggest a formal model for individual attitudes toward globalization, in which we link the key

variables from the openness and size of government debate to public opinion. We then evaluate our predictions with survey data. Our results suggest that international political economists are correct to highlight the dangers of globalization, particularly in countries with competitive labor markets. Individuals in these countries face much more economic risk as a result of globalization, and given the extra costs of insuring workers, this could set the stage for a backlash against policies of economic openness.

## Competing Views of Globalization and Domestic Politics

Political economists have been interested in the linkages between domestic politics and globalization for many years now. Does international capital mobility lead to welfare state retrenchment? Is the international economy vulnerable to a political backlash against globalization? Can corporatism survive in a global economy? These are just a few of the important topics of debate in the literature today. Based on the answers provided to these and related questions, globalization scholars have divided the research into two groups—one provides a more optimistic view of globalization while the other provides a more pessimistic outlook (Garrett 1998a, Iversen 2001).

Pessimists believe that globalization presents governments with a difficult dilemma: it increases the political demands on them to provide social insurance and public goods at the same time that it undermines their ability to finance additional spending. This dilemma, in turn, creates tension between international markets on the one hand and national democracy on the other. Optimists, by contrast, see the reciprocal relationship between the global economy and domestic politics as mutually reinforcing and supportive. While this simple division misses many of the nuances in the research, it has become standard in the globalization literature. The list of influential optimists includes Geoffrey Garrett and Duane Swank among others. John Ruggie, Robert Gilpin, and Dani Rodrik are a few of the more prominent pessimists.[1]

We believe that this is a useful way to organize and think about the literature, but there is also a significant international-comparative divide separating these scholars. This divide is clearly identifiable,

despite the fact almost every paper claims to be at the analytical intersection of international and comparative political economy, and it explains much of the way each camp thinks about the politics of economic globalization. Interestingly, many of today's leading optimists are comparativists while a significant number of the pessimists are international political economists. Why is this the case? To answer this question it is important to recognize that the international-comparative divide strongly influences the questions that each side asks in its research as well as the key variables that these scholars rely on for their analysis.

The difference in motivation largely reflects the second-image / second-image-reversed distinction that international relations and comparative politics scholars are so familiar with (Waltz 1958, Gourevitch 1978). The comparativists tend to be interested in the internal consequences of globalization across different national political-economic contexts while the international political economists are primarily concerned about the impact that domestic anti-globalization politics will have on the international economy. More specifically, comparative political economists are often interested in the impact of globalization on the welfare state or on the effectiveness of government intervention into the domestic economy more generally. Not surprisingly, this concern focuses their attention on countries with large welfare states and interventionist governments.

International political economists see the globalization crisis as more than just a crisis for interventionist governments. Their concern is that if politicians are unable to escape the globalization dilemma described above they will opt for protectionism and capital controls, and this will shake the foundations of the international economy. While they oftentimes posit a universal globalization constraint—that is, one that affects all states regardless of their domestic institutions—international political economists tend to focus on a very different set of countries, the large powerful countries of the world. These are the countries that could potentially undermine the stability of the global economy if they abandoned policies of economic openness.[2]

The following passages, taken from two influential books on the politics of globalization, illustrate the international-comparative divide well. Geoffrey Garrett, a comparative political economist, begins his book *Partisan Politics in the Global Economy* with the following:

> [In this book,] I argue that the existing studies have significantly underestimated the effects of domestic political conditions both on the way governments react to globalization and on their impact on the national economy. Posed in its starkest terms, my argument is that there remains a leftist alternative to free market capitalism in the era of global markets based on classic "big government" and corporatist principles that is viable both politically (in terms of winning elections) and economically (by promoting strong macroeconomic performance). (1998a, 2-4)

Garrett argues convincingly that the systems of social democratic corporatism found in several Western European countries are robust to the many changes brought about by globalization. Robert Gilpin, the dean of international political economy, emphasizes something very different—namely, the vulnerability of the global economy to a domestic backlash—in the conclusion to his recently published book *The Challenge of Global Capitalism*:

> Throughout this book, I have argued that international politics and political relationships significantly affect the nature and dynamics of the international economy. Although technological advance and the interplay of market forces provide sufficient causes for increasing integration of the world economy, the supportive policies of powerful states and cooperative relations among these states constitute the necessary political foundations for a stable and unified world economy…At the opening of the twenty-first century, all the elements that have supported an open global economy have weakened. With the end of the Cold War, both the ability and the willingness of the United States to lead declined…Furthermore, the domestic consensus in both the United States and Europe has been eroded by years of increased income inequalities, high unemployment, and job insecurity…Growing concern over economic globalization and increased competition have intensified the movement toward economic regionalism and the appeal of protectionism. (2000, 346-7)

The difference in outlook is driven also by the fact that comparativists are generally more sensitive to the institutional variation across countries that shape political-economic processes. Garrett (1998a), for example, argues that the combination of corporatist labor market institutions and strong social democratic parties creates a virtuous circle between globalization and Keynesian welfare state policies. More recently, Swank (2002) has argued that inclusive electoral systems, a key feature of what Lijphart (1999)

has called consensus democracy, and political centralization make it more likely that governments will maintain high levels of public spending in the face of economic globalization. These scholars believe that globalization will send the consensus democracies with corporatist economies and majoritarian democracies with liberal market economies along different policy trajectories. Thus, this work is representative of the divergent paths argument that dominates thinking about globalization in the comparative politics research today (Kitschelt et al. 1999). This argument is represented graphically in Figure 1a.[3]

<Figure 1a and 1b About Here>

International political economists care about domestic politics to the extent that it affects the ability of elected officials in these countries to provide effective international leadership and cooperate with each other to sustain global markets, but they employ a simplistic model of domestic politics that does not recognize the institutional differences that much of the comparative research highlights. Instead, they rely on the undifferentiated model of embedded liberalism, which posits that domestic political support for economic openness rests on a social compact between governments and their constituents. According to this bargain, governments agree to protect their citizens from the vagaries of the international economy in return for public support for policies that promote economic openness. Few international political economists have entertained the idea that the political necessity of this bargain has been affected by the interaction of new globalization forces with domestic institutions. The embedded liberalism argument implies that economic globalization leads to political pressures that push all governments down the same policy trajectory, a trajectory that leads to bigger and more active government (See Figure 1b).[4]

Both sides of the international-comparative divide seem to agree that empirically the bargain of embedded liberalism is being dismantled in the majoritarian democracies with liberal market economies, but they disagree strongly about what the long-term political consequences of these changes are. For proponents of the divergent paths argument, these changes are evidence of political-economic re-equilibration or "divergent reconfiguration" (Path B, Figure 1a). The combination of small government

and free trade policies produce a stable political-economic equilibrium in countries with majoritarian polities and liberal market economies. For these scholars, there is no globalization crisis. For proponents of the embedded liberalism argument, however, these changes are destabilizing and cannot be sustained over the long-term. Shrinking welfare expenditures push these countries off the equilibrium path. In order to restore equilibrium, governments in these countries must either play a more active role in cushioning their societies from the international economy (Path B, Figure 1b) or reduce their exposure to it (Path A, Figure 1b). According to this line of thinking, to the extent that governments find it difficult to traverse Path B, domestic backlashes against globalization become more likely and the future of the international economy becomes less certain.

While this distinction may seem academic, it is not. This debate has extremely important (and immediate) policy implications because many countries are currently deciding whether or not to tie unemployment compensation to trade liberalization. While some scholars think this is a good idea (e.g., Rodrik 1997, 78-9), given the institutional configuration in the United States and other countries with liberal market economies, this strategy of welfare state expansion could backfire and be counterproductive.

In the sections that follow, we evaluate the empirical support for two specific versions of the divergent paths and embedded liberalism arguments: Garrett's coherency thesis, which stresses the importance of labor market institutions (and social democratic governance), and Rodrik's external risk thesis, which emphasizes the impact of globalization on labor market volatility. Garrett argues that a country's labor market institutions will determine whether it responds to globalization with more or less government spending.[5] Where labor market institutions are encompassing, union cooperation will help ensure that welfare state expansion does not have deleterious macroeconomic effects and this, in turn, frees leftist governments to pursue greater spending. If a country's labor markets are decentralized, welfare state programs will distort the labor market producing poor macroeconomic performance, and this will push the government to spend less. Dani Rodrik argues that because the demand for labor is more elastic in open economies, workers face more risk. The reason is that when the demand for labor is

elastic, temporary shifts in the labor demand curve from shocks to product prices and/or worker productivity lead to greater variance in employment and wages over time. Therefore, societies in countries with open economies demand higher government spending as a means for providing social insurance in return for accepting more external risk (Rodrik 1997, 1998).

We examine the evidence for these two theories at both the macro-level of government spending and at the micro-level of individual attitudes towards trade. Table 1 identifies the empirical predictions of each theory as well as the key causal mechanism behind these predictions. We begin with the relationship between trade exposure and the size of government.

<Table 1 About Here>

## Trade Openness and the Size of Government in OECD Countries

*The Macro Debate Revisited*

It is well known that countries with open economies have bigger governments (see Figure 2, Source: Rodrik 1998). The debate over whether this correlation is causal or attributable to other differences between the countries that are highly exposed to trade and those that are only moderately exposed remains unresolved, however. One thing is certain: highly open countries are different in a number of ways from their less open counterparts.

<Figure 2 About Here>

Consistent with the divergent paths argument, many believe that the relationship between trade openness and the size of government in the small European countries is a long-term historical one that took many years to develop. Trade generated structural changes to their economies and polities that led to high levels of unionization and strong leftist parties, creating the necessary conditions for social democratic corporatism, which in turn made it possible to sustain large welfare states (Cameron 1978, Katzenstein 1985). Along these lines, Garrett (1998a) has argued that the impact of globalization on welfare state policies will depend on a country's labor market institutions. There is no direct, unconditional relationship between trade openness and the size of government and therefore no reason to

expect the majoritarian democracies with liberal market economies to follow a similar path as they become more and more exposed to the international economy.

Others believe that there is a much more universal, short-term relationship between openness and the size of government. According to this line of thinking, trade openness and the welfare state are natural complements because trade creates economic losers, and those who are harmed must be compensated or else they will not support policies that maintain and promote economic openness.[6] Rodrik (1998) argues that countries that trade more, ceteris paribus, are subject to more external risk and this explains why they have bigger governments. Rodrik has also provided substantial empirical evidence to support this theory. He operationalizes external risk by interacting trade openness with the variance in a country's terms of trade over time. According to this measure, countries are exposed to high levels of external risk if they trade a lot and they experience significant volatility in the prices of their imports and exports. Rodrik shows that there is a robust, positive relationship between his measure of external risk and levels of governments spending around the world.

Rodrik's inferences about the causal effect of openness (through risk) on government spending in OECD countries, however, are suspect because the former variable is probably endogenous (i.e., correlated with the error term in the regression models). If we think of openness as the treatment in a quasi-experiment, selection to the experimental and control groups is clearly non-random (e.g., see Achen 1986). The experimental group and control group differ in so many ways—some observable, others that are not—that it is difficult to make valid comparisons between the two. This problem makes omitted variable bias in the regression coefficient estimates likely.[7]

Given these (systematic) differences, the most convincing results that Rodrik provides are his panel estimates (1998, Table 5), which account for fixed country (and period) effects. This can be a useful way to deal with important cross-national differences that are likely to be correlated with both a country's openness to trade and the size of its government. These estimates tell us whether temporary deviations from the long-term (country specific) equilibrium level of risk exposure lead to changes in government spending. Rodrik's panel estimates, however, are for his entire sample, which includes both

OECD countries and LDCs. He does not estimate his model with a separate OECD panel so one must draw inferences about this group with caution.

There are many reasons why the relationship between risk and government spending might differ across OECD and LDC samples. In fact, Garrett and Mitchell (2001) find that short term deviations from the long run equilibrium level of trade (i.e., the fixed effect) lead to changes in the opposite direction: higher trade leads to less spending. Their explanation for this result is that "trade may not generate much demand for government compensation in the OECD because, unlike the LDCs, patterns of trade are not very volatile" (Garrett and Mitchell 2001, 169). Garrett and Mitchell may be right but unfortunately their results are not directly comparable to Rodrik's because they do not include his measure of external risk in their models. Therefore they cannot evaluate whether his results are robust across OECD and LDC panels. Below we examine the impact of external risk on government spending in OECD countries; we also examine whether this relationship depends on a country's labor market institutions.

*Data and Methods*

To explore the relationships between a country's level of risk exposure, its labor market institutions, and its government spending, we use Rodrik's fixed effects model with period dummies (1998, 1018) as our starting point. His specification is

$$\text{Log of Govt Cons (\% of GDP)} = f\begin{pmatrix}\text{GDP per Capita}, \text{Openness}_{-1}, \text{Terms of Trade Variability}_{-1}, \\ \text{Openness}_{-1} \times \text{Terms of Trade Variability}_{-1}\end{pmatrix}. \quad (1)$$

The dependent variable in equation (1) is the log of government consumption as a percentage of GDP. The right-hand-side variables are GDP per capita (to control for Wagner's law, which predicts that governments will spend a higher proportion of GDP as per-capita real income increases); trade openness (Openness), which is the ratio of the sum of exports and imports to GDP, lagged one year; terms of trade variability, which is calculated (following Rodrik) by using the standard deviation of the first (log) differences in the terms of trade, also lagged one year; and the lagged interaction of trade openness and

terms of trade variability, Rodrik's measure of external risk. To this list, we add an external risk / corporatism interaction term and a deterministic time trend; we include the trend in our analysis because there is a clear secular increase in government spending during the period of our sample.

We estimate this model using a panel of OECD countries. The sample includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom and the United States. There are six five-year periods for each country between 1961 and 1990. All of the data are period averages (or standard deviations), except GDP per capita, which is the value at the beginning of each period. The data was taken from the OECD's *Historical Statistics 1960-1994* and the World Bank's *World Development Indicators*.

We address the endogeneity problem described above in two ways. First, we estimate a fixed effects model. The fixed effects account for the static differences between the highly exposed and minimally exposed countries. Second, we employ a Heckman (1978) selection model using a binary treatment variable, which distinguishes countries that are exposed to high levels of external risk from those that are not. External risk reflects a country's trade openness and its terms-of-trade volatility. Therefore, we model the probability of high exposure to external risk as a function of geographic size and export dependence on ores and metals. Size is a good exogenous predictor of trade openness and, because the markets for primary products are among the most volatile, export dependence on ores and metals is a good exogenous predictor of the variance in a country's terms of trade. Together these variables should do a good job of predicting a country's exposure to external risk.

*Results*

The results are reported in Table 2. Rodrik's full-sample estimates appear in the first column followed by our OECD estimates in the second (Model 1). In short, we find the effect of external risk on government spending in the OECD depends on a country's labor market institutions (Garrett's Hypothesis). The estimated coefficient on the external risk / corporatism interaction term in Model 1 is positive and statistically significant at the .10 level using robust (country-clustered) standard errors. This

result suggests that the corporatist countries are more likely to rely on public employment and in-kind transfers as a means to protect workers from the vagaries of the international economy. For example, at the highest level of corporatism, an increase in openness and terms of trade volatility from the sample value at the 25th percentile to the sample value at the 75th percentile (assuming the average fixed effect), results in a 2 percent increase in government consumption. By contrast, at the lowest level of corporatism, the same increase in openness and terms of trade volatility results in a 5.5 percent decrease in government consumption. Next, we check to see whether this result is robust to changes in the dependent variable. First, we use total transfers as a percentage of GDP (Model 2). The estimated coefficient on the interaction term in this model is correctly signed, but is not statistically significant at conventional levels. This could be explained by the fact that these transfers include many programs that are unrelated to globalization. Therefore, we use total spending on unemployment insurance and active labor market programs in Model 3. While this measure is the most appropriate for our purposes, it has the drawback of limited availability: the sample size is cut in half when we use this variable. Nevertheless, the results are strongly supportive of the initial government consumption results. The two coefficients (i.e., external risk and external risk / corporatism interaction) are correctly signed (Model 3). The individual coefficients are not statistically significant, but jointly they are. We also check to see whether the results are robust when we use alternative measures of corporatism. For this purpose, we use the time-varying corporatism measure provided by Golden, Lange, and Wallerstein (GLW, Model 4).[8] Again, we find that the impact of external risk on government spending is dependent on a country's labor market institutions. The coefficient on the risk / corporatism interaction term is statistically significant at the .10 level.

<Table 2 About Here>

Finally, we check to see whether our results are robust to alternative estimation strategies. The fixed effects strategy could be problematic if there are omitted or unobservable time-varying predictors that are correlated with the included regressors. Therefore, we drop the fixed effects and address the endogeneity issue by estimating a Heckman (1978) selection model using a binary treatment variable; the

treatment takes a value of one for observations with external risk scores above the median and zero otherwise. Because we drop the fixed effects, we are able to include a non-interacted corporatism term in the model. The results are presented in the sixth column of Table 2 (Model 5).

The coefficients on the variables in the selection equation are correctly signed and statistically significant. Big countries are less likely to be exposed to high levels of external risk because they trade very little. Countries that trade a lot of ores and metals are more likely to be exposed to high levels of external risk because of the price volatility in these markets. In the outcome equation, the coefficient on the treatment variable is large, negative, and statistically significant. Ceteris paribus, having an external risk score above the median is associated with a -.3166 drop in the log of government spending (as a percentage of GDP). Moreover, the impact of external risk depends on a country's labor market institutions. We can easily reject the joint hypothesis that the coefficients on the corporatism and corporatism / treatment interaction variables are zero. Additionally, there is strong evidence that the selection and outcome equations are not independent. This strongly suggests our concerns about endogeneity were justified. The estimate of rho in Model 5, which represents the cross-equation correlation of the errors, is 0.6733. Using a Wald test, we can easily reject the null hypothesis that rho is zero. The equivalent LR test also rejects the null. Thus, these results suggest that the countries exposed to high levels of external risk would have high levels of government spending regardless of whether their economies were open to trade or not. Future research must pay more attention to this endogeneity problem. To check the robustness of the corporatism result, we include the time-varying GLW measure in Models 6. The coefficients are correctly signed; the individual coefficient on the corporatism / treatment interaction term is statistically significant. For the joint test, p-value < .000.

To sum, our results show the impact of economic openness on government spending is contingent on a country's labor market institutions. Our results are robust across estimation techniques and various measures of the dependent and independent variables. Thus, we concur with scholars like Peter Katzenstein and Geoffrey Garrett that one very important explanation for why the small open economies of Europe have large governments when compared with the rest of the OECD countries is that they also

have corporatist labor market institutions. It is also clear that the non-corporatist majoritarian democracies are heading down a different globalization pathway. That said, there are two important questions that remain to be answered: Why are these countries headed down a different path? And, is this path politically sustainable over the long term? With this in mind we turn to a more direct test of the causal mechanisms underlying Rodrik and Garrett's theories. Is it true that government spending has higher social costs in non-majoritarian democracies? Does exposure to external risk lead to increased labor market volatility?

*Integration, Insurance, and Decentralized Labor Markets*

Recently, Iversen (2001, 48-52) has criticized Rodrik by arguing that he does not show that empirically terms-of-trade volatility translates into greater labor market volatility. In theory, if internal and external shocks are negatively correlated, exposure to the international economy could offset domestic risk, and reduce the overall risk that workers face. If this were true, it would explain why countries with liberal market economies do not respond to increased exposure to the global economy with more insurance. In fact, Iversen finds no relationship between the export dependence of the manufacturing sectors in sixteen OECD countries and the labor market volatility in those sectors. While, at first glance, this evidence seems convincing, there are two problems with Iversen's test. First, Rodrik's theoretical argument about volatility is most applicable to competitive labor markets (1997, 19-20).[9] We would not expect to see trade openness linked to wage and employment volatility in countries with corporatist institutions since these institutions were developed to insulate workers in small trade dependent countries from adverse shocks to the price of their imports and exports (Katzenstein 1985). Iversen includes countries with both corporatist and competitive labor markets in his sample. Second, the elasticity of labor demand is partly a function of the ease with which foreign production can be substituted for domestic production. This implies the amount of import competition that an industry faces is also an important source of labor market volatility. A better test would examine the relationship between the trade openness (using both exports and imports) of an industry and its labor market volatility, and would include only countries with decentralized labor markets.

Figure 3 plots the relationship between openness and wage volatility for four manufacturing industries—textiles, machinery, metals, and transport equipment—in Canada, the United Kingdom, and the United States for three five-year periods between 1981 and 1995.[10] There is a clear positive relationship between openness and volatility in this data. In the United States this relationship is most evident in transportation equipment. Trade exposure and wage volatility increased dramatically in this sector from the early 1980s to the late 1980s and early 1990s. In Canada, the relationship between openness and volatility is evident in the metal and textiles industries from the late 1980s to the early 1990s. In the UK we see increased exposure and wage volatility in transportation, textiles, and machinery. Thus, contra Iversen, we find substantial support for the critical causal mechanism in Rodrik's argument: increased exposure to the international economy creates more volatility in decentralized labor markets.

<Figure 3 About Here>

While this may be the case, divergence theorists may respond that governments will be constrained from providing insurance because doing so creates labor market distortions with costs that outweigh the benefits. The key to Garrett's argument lies in how the labor market responds to increased government spending. When a country has encompassing labor market institutions, the market will respond positively to increased government spending. When a country has a decentralized labor market, the market will respond negatively to increased government spending. Specifically, increased insurance, because it leads to less market discipline, should increase unemployment. This also could explain why the countries with liberal market economies do not respond to increased exposure to the global economy with more insurance. There is a need for more insurance, but it is too costly to provide it.

In figure 4, we present evidence showing the relationship between standardized changes or "shocks" to government spending on unemployment benefits (lagged one year) and standardized changes in unemployment.[11] Figure 4a shows the relationship for the five countries with the most decentralized labor markets (Australia, Canada, New Zealand, United Kingdom, and the United States). In four of the five cases, the relationship between shocks to spending and changes in unemployment is positive.

Increases in government spending on unemployment insurance in one year are followed by a surge in unemployment in the next. Figure 4b presents the data for the five most corporatist cases (Austria, Denmark, the Netherlands, Norway, and Sweden). Here we see the expected negative relationship in three of the five cases. An increase in government spending on unemployment insurance in one year is followed by a drop in unemployment in the next.

<Figure 4 About Here>

The difference in the cyclical patterns in the data for a country like Australia on the one hand compared with Austria on the other are remarkable and very consistent with critical causal mechanism in Garrett's argument.

Summarizing our results to this point, we find that globalization leads to more risk in competitive labor markets, but we also find that the governments in these countries face constraints that make it difficult to respond by providing more insurance. What are the implications for trade policy? It is difficult to say without analyzing micro-level data. It could be that individuals in these countries are more risk acceptant and therefore their trade policy preferences are unaffected by the inability of their governments to provide more insurance. It could be that private markets in these countries provide optimal levels of insurance in response to new labor market risks. It could be that the costs of providing insurance outweigh the benefits for politically pivotal groups in these countries. In other words, the answer to this question is unclear. Therefore, we turn to a cross-level analysis of the determinants of individual support for free trade.

## Risk and Individual Attitudes towards Economic Globalization

### *A Simple Micro Model*

We begin by presenting a simple theoretical model for thinking about attitudes towards globalization that incorporates and formalizes the arguments about external risk, social insurance, and labor markets presented above. An individual worker's attitudes towards economic changes, like those generated by globalization, are determined by the consequences of these changes for his or her expected

utility, which is a function of 1) the expected income from unemployment, 2) the expected net-of-tax income from employment, and 3) his or her degree of risk aversion. This relationship can be written formally as

$$EU = p^e B + (1 - p^e)(I - t^e) - \gamma\sigma, \tag{2}$$

where $p$ is the probability of unemployment and $p^e$ is the expected probability of unemployment, $B$ and $I$ are the incomes from unemployment and employment respectively, $t^e$ is the expected lump sum tax used to finance the unemployment benefits, $\sigma$ is the standard deviation of $p$, a measure of labor market volatility, and $\gamma$ is the coefficient of risk aversion.

If we define $U_V^e$ as the expected number of individuals who choose not to work conditional on the size of unemployment benefits, and we normalize the country's labor endowment to unity, then the expected tax levied on an employed individual is

$$t^e = \frac{B(p^e(1 - U_V^e) + U_V^e)}{(1 - p^e)(1 - U_V^e)} \tag{3}$$

The numerator in equation (3) is the expected total cost of unemployment benefits and the denominator is the expected tax base. Assuming that the expected level of voluntary unemployment in an economy and an individual worker's sensitivity to employment risk are both functions of the size of unemployment benefits $(U_V^e[B], \gamma[B])$, an increase in these benefits will affect an individual worker's utility in the following way:

$$\frac{\partial EU}{\partial B} = -\gamma'\sigma - \left(\frac{(1 - U_V^e)U_V^e + BU_V^{e\prime}}{(1 - U_V^e)^2}\right). \tag{4}$$

From equation (2), it is clear that when $B$ is small (relative to the net-of-tax income from employment), uncertainty about $p$ will generate uncertainty about future income, which will lower the utility of risk averse workers. As $B$ increases, however, uncertainty about $p$, which reflects one's employment prospects, leads to less and less uncertainty about future income. At the limit $B = (I - t)$, there is no

uncertainty about income regardless of the size of $\sigma$. Therefore, as *B* increases, the sensitivity to $\sigma$ declines ( $\gamma' < 0$ ), and the first term on the right-hand-side of equation (4) represents the utility gain from reduced income uncertainty. Of course, the size of this gain will depend on $\sigma$, which we expect to be a function of a country's labor market institutions (See Figure 3).

The second term on the right-hand side of equation (4) is the utility loss associated with the expected labor market distortions. Individuals who are employed must support those who choose not to work. The first partial derivative of $U_V^e$ with respect to B is positive. Voluntary unemployment is expected to rise with the level of unemployment benefits. Moreover, the size of this effect will depend on a country's labor market institutions. On the one hand, if individuals are making decisions about whether or not to seek employment, voluntary unemployment will be at socially inefficient levels because those who choose not to work impose a negative externality on those who choose to remain in the workforce. On the other hand, if encompassing unions make these decisions, some of these social costs will be internalized and the levels of unemployment will be lower. According to this Olsonian logic, unions will choose lower levels of unemployment for their membership than the members themselves would choose if they were making the decisions individually (Summers et al. 1993). Workers form their expectations about levels of employment with these differences in labor market institutions and outcomes in mind.

In terms of the framework above, globalization increases $\sigma$, reducing workers' utilities. The increase in $\sigma$ (labor market volatility) is likely to be greater for countries with decentralized labor markets. Governments can try to offset this loss by increasing benefits. But this strategy can backfire if it generates high levels of voluntary unemployment. If this is the case, then governments will reduce the expected net income from employment and exacerbate the negative utility consequences of globalization for workers. Ceteris paribus, governments in countries with centralized labor market institutions should be able to eliminate much of the income uncertainty associated with globalization through the provision of insurance without, at the same time, reducing substantially the expected net income from employment. Globalization will have a relatively small impact on the expected utility of workers, and this will be

reflected in their support for economic openness. Governments in countries with decentralized labor markets, on the other hand, face a dilemma. If they choose to respond to globalization by providing generous unemployment insurance, they may create higher levels of voluntary unemployment. But if they choose not to respond in this way, they are ignoring the problem of economic insecurity caused by globalization, which may be more severe for them because of their labor market institutions. If the negative distortions are too large, they have no effective response to globalization and this could produce worker dissatisfaction with economic openness.

Thus, the expected utility framework outlined above leads to the following predictions: public spending will be an effective means for increasing support for economic globalization among workers in countries with corporatist labor market institutions. It may be less effective in countries with decentralized labor markets. More spending may even decrease support for openness in these countries. At the same time, the labor market risk generated by globalization is likely to be greater in countries with decentralized labor market institutions. Hence, these governments face a serious dilemma. The problem they face is more severe and the policy tools at their disposal are less effective. Consequently, we would expect to find support for free trade to be highest among workers in countries with corporatist labor market institutions and generous unemployment benefits. We test this prediction next using cross-national survey data on attitudes towards free trade.

*Data and Methods*

The data we use is from the ISSP's 1995 survey on national identity. This dataset, used by both Mayda and Rodrik (2001) and O'Rourke and Sinnot (2002), provides information about individuals' attitudes towards free trade. More specifically, it asks the question:

> How much do you agree or disagree with the following statement: (Respondent's Country) should limit the import of foreign products in order to protect its national economy.
>
> 1) Agree strongly
> 2) Agree
> 3) Neither agree nor disagree
> 4) Disagree
> 5) Disagree strongly

We employ Mayda and Rodrik's preferred regression model as a benchmark for our analysis:

$$TRADE_OP = f\begin{pmatrix} Age, Male, Educyrs, Educyrs*GDP, Earnrel, SocialClass, \\ Neighbor, Town, County, Continent, Natprid2, Natprid3, Natprid4 \end{pmatrix}. \quad (5)$$

The dependent variable in equation (5) (TRADE_OP) is constructed from respondents' answers to the survey question about protectionism above. Initially, respondents who did not know or refused to answer were excluded from the sample. TRADE_OP was created by assigning a value of 1 to respondents who answered "agree strongly," a 2 to those who answered "agree," etc. Thus, high values of TRADE_OP reflect pro-trade attitudes whereas low values reflect support for protectionism.

The individual characteristics included as explanatory variables in the model are age (Age); gender (Male); years of education (Educyrs), which Mayda and Rodrik use as a measure of an individual's skill level; relative income (Earnrel), perceived social class (SocialClass); attachment to one's neighborhood (Neighbor), county/region (Town), and continent (Continent); and whether one holds patriotic, (Natprid1), nationalistic (Natprid2), and/or chauvinistic (Natprid3) attitudes. Because trade theory predicts that the impact of skill on an individual's trade policy preferences will depend on the skill endowment of his or her country, Mayda and Rodrik interact Educyrs with the per capita gross domestic product of the respondent's country (GDP), which they use as a proxy for a country's endowment of skilled labor. As GDP rises, the skill cleavage in individual support for free trade is expected to do the same.

We add the insurance and risk variables used above to our analysis. Following Scheve (2000) we also model the skill cleavage in support for free trade as a function of government spending on unemployment insurance by interacting Educyrs with Insurance. Because the ISSP surveys include a number of transition economies for which corporatism scores are currently unavailable, we have a smaller sample than Mayda and Rodrik (2001) and O'Rourke and Sinnot (2002). When we use the Lijphart-Crepaz measure of corporatism, the index that ranks the largest number of countries, our sample includes respondents from Australia, Austria, Canada, Germany, Ireland, Italy, Japan, the Netherlands, New

Zealand, Norway, Sweden, the United Kingdom, and the United States. The sample shrinks when we use other measures.

The dependent variable in equation (5), TRADE_OP, is ordinal. Ordinal dependent variables can create problems for linear models because these models assume that the intervals between adjacent categories are equal. If this assumption does not hold, the estimated coefficients will be biased and misleading (McKelvey and Zavoina 1975). For this reason, we estimate an ordered probit model. (The short presentation of the ordered probit model below follows Long (1997, 116-122).) This model is based on a measurement equation that maps a latent variable $y^*$ to an observable variable $y$ according to

$$y_i = m \text{ if } \tau_{m-1} \leq y_i^* < \tau_m \text{ for } m = 1 \text{ to } J. \quad (6)$$

The $\tau' s$ in (6) are thresholds with $\tau_0 = -\infty$ and $\tau_J = \infty$. The structural model is

$$y_i^* = \mathbf{x}_i \boldsymbol{\beta} + \varepsilon_i, \quad (7)$$

where $\mathbf{x}_i$ is a row vector of individual values on the independent variables and $\boldsymbol{\beta}$ is a column vector of structural coefficients. The probability of observing $y = m$ given $\mathbf{x}$ is

$$\Pr(y_i = m | \mathbf{x}_i, \boldsymbol{\beta}, \boldsymbol{\tau}) = \Phi(\tau_m - \mathbf{x}_i \boldsymbol{\beta}) - \Phi(\tau_{m-1} - \mathbf{x}_i \boldsymbol{\beta}). \quad (8)$$

where $\Phi$ in (8) is the cumulative standard normal distribution.

Since individuals in each country are exposed to the same "treatment" (insurance and adjusted risk) and cannot be considered independent trials, we have to be careful estimating the standard errors on these regression coefficients. When data for micro units grouped by geographical region are regressed on aggregate variables, the standard estimator of the variance of the sampling distribution for these coefficients will be biased downwards (Moulton 1990). Therefore, we reported robust, "clustered" standard errors for all of our micro results. This is our preferred method for addressing the problems associated cross-level analysis, but we also estimate a hierarchical ordered probit below (Steenbergen and Jones 2002).

*Results*

Before turning to the individual level regressions, we start by looking at some important aggregate relationships—the size of a country's unemployment benefits and its exposure to external risk on the one hand and the percentage of people in that country who support free trade (i.e., the percentage of those sampled who answer 4 or 5 to the question above). We also examine how a country's labor market institutions condition these relationships. Interestingly, at the aggregate level, we do not find evidence that the impact of unemployment insurance on support for free trade is dependent on a county's labor market institutions. We do find, however, that a country's labor market institutions strongly condition the impact that terms of trade volatility has on aggregate support for free trade (Katzenstein 1985). The interaction of a country's corporatism score with its terms of trade volatility score (adjusted risk) is highly correlated with support for free trade.[12] Support for free trade is the lowest in countries that experience substantial terms of trade volatility and have highly decentralized labor markets.

Figures 5a and 5b present added variable plots of the relationship between unemployment compensation and support for free trade (controlling for risk) and the relationship between adjusted risk and support for free trade (controlling for unemployment insurance).[13] The level of unemployment insurance is the average (annual) benefit per unemployed worker measured in US dollars. Again, unemployment insurance seems to have a positive impact on support for free trade, even in countries with decentralized labor market institutions. The relative size of their insurance benefits could explain why support for free trade is higher than expected, given their adjusted risk exposure, in Australia, Canada, and New Zealand than in the United Kingdom and the United States. At the same time, the lower than expected level of support for free trade in Australia when compared with Norway—two countries that face similar levels of terms of trade volatility (both very high)—can be accounted for by the fact that Australia has a decentralized labor market while Norway has corporatist institutions that insulate its labor market from terms of trade volatility.

Next, we turn to individual-level regressions. The results are presented in Table 3. All of the variables added to Mayda and Rodrik's regression in Model 1 have statistically significant coefficients

with the anticipated signs. Again, we report clustered standard errors to address the "duplication" problem (Steenbergen and Bradford 2002). According to these estimates, the size of the effects of both insurance and increased exposure to external risk is large. For example, at the sample mean for risk and the sample minimum for insurance, the probability that a typical survey respondent (i.e., one with average scores on all the other independent variables) will agree that protectionism should be used to support the national economy is 0.578. The probability that this same respondent will support protectionism at the sample maximum for insurance is 0.409. At the sample mean for insurance and the sample minimum for risk, the probability that a typical survey respondent will support protectionism is 0.452. This probability increases to 0.625 at the sample maximum for risk.

<Table 3 About Here>

Next we examine the robustness of our results. First, we use a different measure for our insurance variable—the OECD's net replacement rate for a family of four—in Model 2. This measure is the ratio of benefit income for the family when unemployed less any taxes on benefit income to the sum of earned income and benefit income when employed less taxes on earnings. The results do not change. Next, we use the GLW measure of corporatism to calculate our adjusted external risk variable (Model 3). Again, the results are robust. Next, we estimate a hierarchical (random coefficients) ordered probit (Model 4). In this model, the level-1 intercept is a function of a country's level of unemployment insurance and adjusted external risk. (The constant for the intercept is reported in the Table next to "Cut1".) Additionally, the level-1 coefficient on Educyrs is a function of a country's GDP and level of unemployment insurance. In this model, high levels of insurance continue to be associated with higher support for free trade and a lower skill-gap in support for trade. The level-2 coefficient on adjusted external risk is not statistically significant, however. Next, we impute the missing data (King et al. 2001, Honaker et al. 2001) to see if non-random selection into our sample biases any of the coefficients on our key variables. The results for Model 5 show that imputation has very little effect on our estimate for the coefficient on unemployment insurance. It remains positive and statistically significant. The coefficient on adjusted risk, however, is almost halved and is no longer statistically significant. This gives us some

pause for concern, but we also believe this estimate is biased downward because of omitted variables. The size of both coefficients (insurance and risk) increases when we add dummy variables for Sweden and Austria (Model 6), the two new EU countries in our sample, and Japan (Model 7), the outlier in Figures 5a and 5b. Finally, we add unemployment and inflation to the regression in Model 8 to check for the possibility that the cross-national differences in support for trade are attributable to differences in macroeconomic performance. The coefficients on insurance and adjusted external risk remain correctly signed and statistically significant.

In sum, our individual-level results support the embedded liberalism thesis. Greater exposure to external risk is associated with lower support for free trade while generous unemployment insurance is associated with higher support for free trade.

## Conclusion

Comparative political economists tend to be concerned about globalization's ramifications for domestic politics, and their focus on domestic institutions has led them to argue that the consensus democracies with coordinated markets and majoritarian democracies with liberal market economies should have different but equally stable responses to globalization. By contrast, international political economists focus on the possibility that domestic politics could lead to instability in the global economy, and their unified model of embedded liberalism predicts that all countries will follow the same globalization trajectory. Prior empirical evidence seemed to support both arguments.

Our macro evidence shows the impact of economic openness on government spending is contingent on a country's labor market institutions. Even though globalization leads to more risk in competitive labor markets, the governments in these countries do not respond, at least not systematically, with more social spending. Like Garrett, we believe this is due to the costly externalities associated with providing unemployment insurance in this context. However, we do not believe that the disparate responses of the corporatist and liberal market economies to globalization are evidence that a period of "divergent reconfiguration" in the varieties of national capitalism is underway (Kitschelt et al. 1999).

There is no evidence to suggest that the current path of the liberal market economies is politically sustainable over the long term. If anything the survey research done on this topic suggests the opposite: citizens will not continue to support policies of free trade if their governments do not help them compete in the global economy and insure them against the new risks they face, even in the liberal market economies (e.g., Scheve and Slaughter 2001). Our micro results are consistent with this story and suggest that international political economists are correct to highlight the dangers of globalization and the possibility of a backlash against policies of economic openness.

What can be done to avoid this outcome? We have highlighted two mechanisms through which governments maintain domestic support for free trade – corporatist labor institutions and unemployment insurance. One possible strategy for governments in the liberal market countries to address the globalization dilemma they face is labor market reform. These countries could "import" corporatism (Garrett 1998a, 155-157). However, we believe that corporatism is an evolved institution that is not readily adapted to large economies. Therefore, instead of redesigning labor market institutions, countries with competitive labor markets should redesign (and boost) their unemployment insurance programs. Specifically, these programs should be designed to minimize their labor market distortions (e.g., Shavell and Weiss 1979, Hopenhayn and Nicolini 1997, Acemoglu and Shimer 1998, Kletzer and Litan 2001). To a very limited extent, the US has started down this path with the expansion of trade adjustment assistance and the new wage insurance experiment for older workers that accompanied the latest trade promotion authority bill. This is a positive development, and maintaining support for globalization will require further increases in government programs aimed at those who will be directly impacted by greater competition. In order for these programs to be politically sustainable, however, they must be designed to minimize the forms of moral hazard that unemployment insurance can generate.

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**Figure 1a. Globalization and the Size of Government: The Divergent Paths Argument**

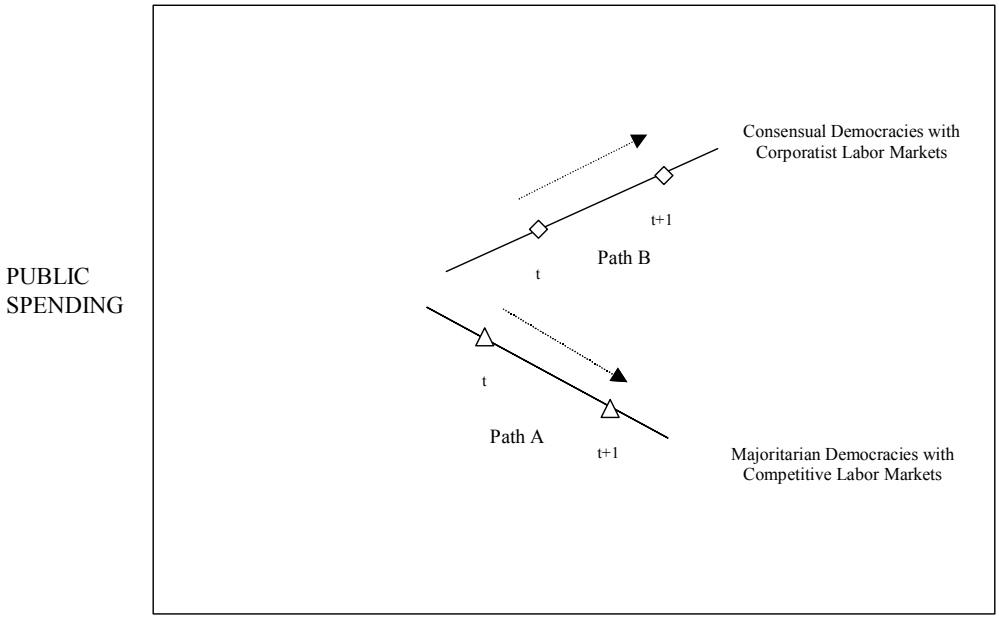



**Figure 1b. Globalization and the Size of Government: the Embedded Liberalism Argument**

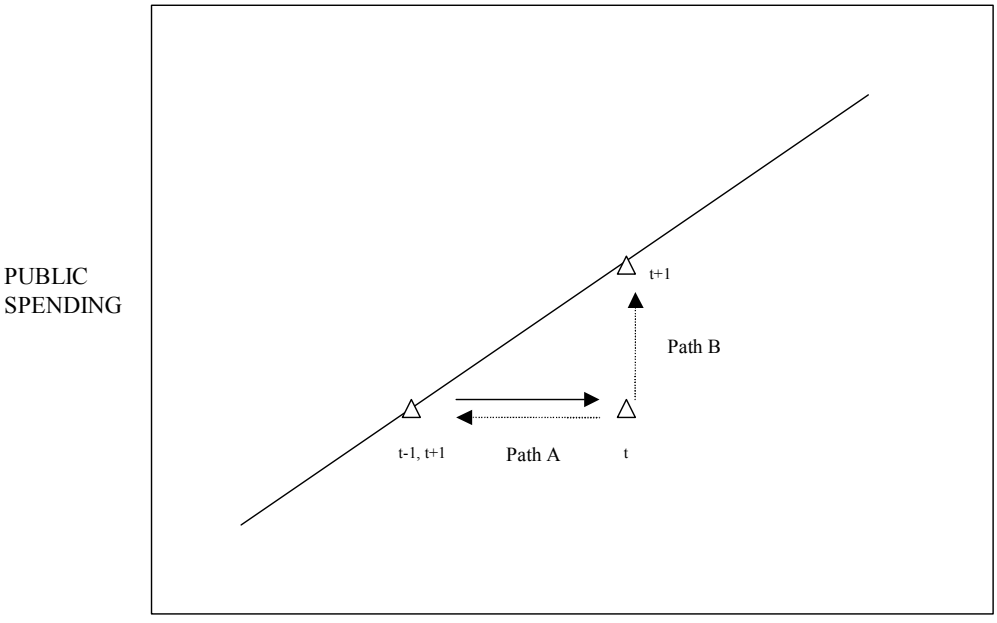


**Table 1. Empirical Predictions**

| Level of Analysis | Divergent Paths (Garrett) | Embedded Liberalism (Rodrik) |
|---|---|---|
| Macro-Level (Empirical Relationship between Trade Exposure and Size of Government) | No Simple Causal Relationship | Simple Causal Relationship |
| Key Argument | Macroeconomic Impact of Welfare State Spending Dependent on LM Institutions | Trade Exposure Leads to Labor Market Volatility |
| Micro-Level (Impact of Unemployment Insurance and LM Volatility on Individual Support for Trade) | Impact of Insurance on Support for Free Trade Dependent on LM Institutions | Volatility Decreases Support. Insurance Increases Support. |

**Figure 2: Trade Openness and the Size of Government: OECD Countries**

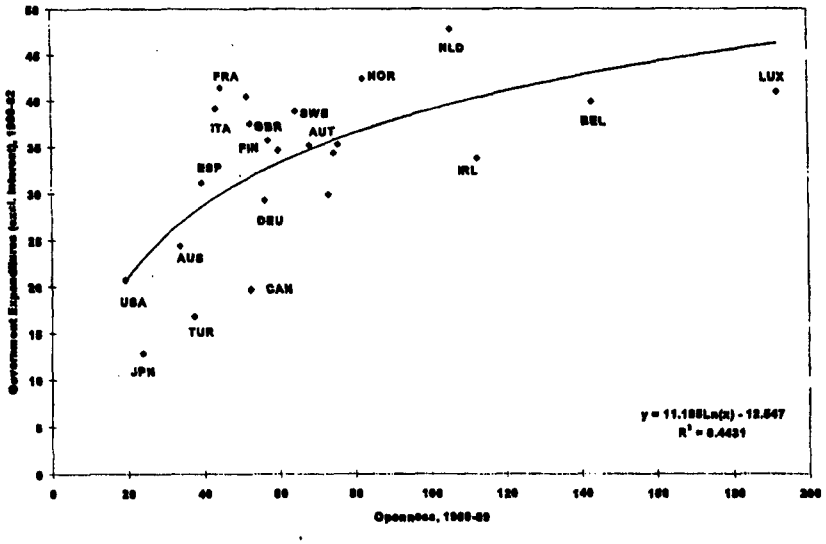



FIG. 1.—Relationship between openness and government expenditures

**Source:** Rodrik (1998)

**Table 2: Trade Openness, Corporatism, and the Size of Government**

| | Rodrik (1998) | Model 1 (OECD) | Model 2 (Transfers) | Model 3 (Unemp) | Model 4 (GLW) | Model 5 (Heckman) | Model 6 (GLW) |
|---|---|---|---|---|---|---|---|
| Outcome | | | | | | | |
| GDP per capita | -2.83E-05** | -.0000157 | -.0000156 | -.0001029 | -.000015 | .0000122 | .0000276* |
| | (7.83E-06) | (9.33e-06) | (.0000353) | (.0001086) | (.0000139) | (.000012) | (.0000151) |
| Openness$_{-1}$ | -.0012 | -.0027135** | -.0010951 | -.0054941 | -.0034879** | | |
| | (.0008) | (.0009873) | (.0021715) | (.0093383) | (.0009759) | | |
| Terms-of-trade variability$_{-1}$ | .2481 | -.6131749 | 1.916946* | -4.80928 | -.907518 | | |
| | (.2252) | (.5851536) | (.9673071) | (5.016104) | (.734575) | | |
| Openness$_{-1}$ × terms-of-trade variability$_{-1}$ (External Risk) | .0087** | .0199285[a] | -.0250979[a] | .1455338[a] | .0082769[a] | | |
| | (.0034) | (.0125969) | (.0226458) | (.0947675) | (.0197438) | | |
| Treatment (External Risk) | | | | | | -.3165877** | -.5894677** |
| | | | | | | (.0957277) | (.1991631) |
| Corporatism | | | | | | .035692[a] | .0538105[a] |
| | | | | | | (.0323357) | (.0344296) |
| External Risk ×Corporatism | | .0071768*[, a] | .0156573[a] | .037229[a] | .0064913*[,a] | | |
| | | (.0041852) | (.0148346) | (.0333156) | (.0033611) | | |
| Treatment × Corporatism | | | | | | .0381775[a] | .1119252**[,a] |
| | | | | | | (.0458717) | (.0544373) |
| Year | | .003897 | .0066592 | .0271626 | .0036229 | .0121808** | .008666 |
| | | (.0028479) | (.0068168) | (.0213061) | (.0039749) | (.0048839) | (.0054511) |
| Fixed Country Effects | Yes | Yes | Yes | Yes | Yes | No | No |
| Fixed Period Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Joint Test[a] | | 2.35 | 0.92 | 3.19* | 2.48 | 6.00** | 26.35** |
| Selection | | | | | | | |
| LN(Land) | | | | | | -.2277742** | -.2114627** |
| | | | | | | (.0895771) | (.0938032) |
| Ores and Metals | | | | | | .0835881** | .1234484** |
| | | | | | | (.0330696) | (.0386609) |
| Year | | | | | | .0518332** | .0633457** |
| | | | | | | (.0191132) | (.0236608) |
| Fixed Period Effects | | | | | | Yes | Yes |
| Rho | | | | | | .6732859** | .6251319** |
| | | | | | | (.1552161) | (.2081619) |
| LR Test (Rho = 0) | | | | | | 4.72** | 3.91** |
| Observations | 662 | 107 | 103 | 51 | 95 | 107 | 95 |

Parentheses for Models 1-4 contain robust (clustered) standard errors. *p-value < .10, **p-value < .05.

**Figure 3. Trade Openness and Labor Market Volatility in Canada, the United Kingdom, and the United States: Wages in the Textile, Machinery, Metals, and Transport Equipment Industries 1981-1985, 1986-1990, 1991-1995.**

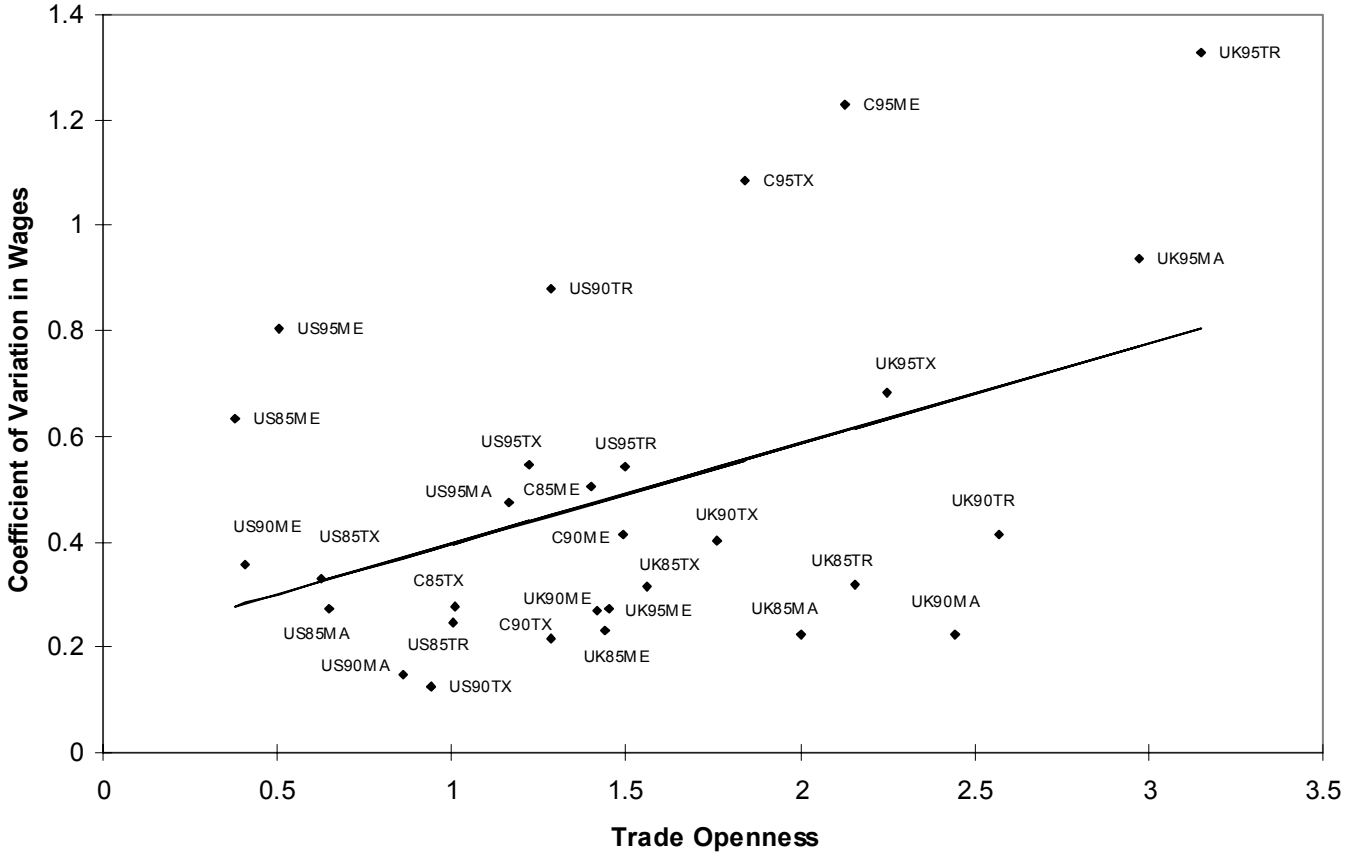
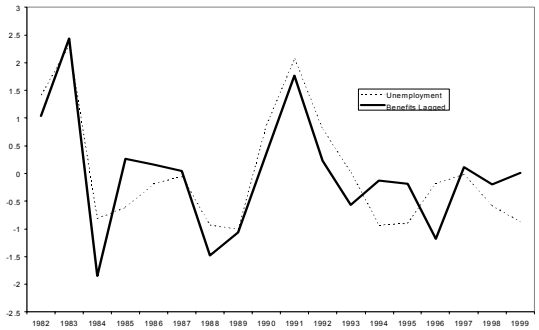
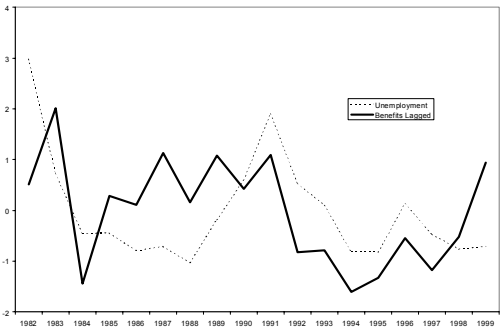


**Figure 4a. Standardized Changes in Unemployment Benefits (Lagged) and the Level of Unemployment in Countries with Decentralized Labor Markets, 1982-1999.**

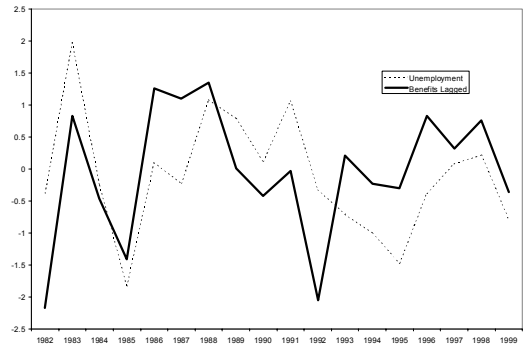
**Australia. Correlation Coefficient: +0.827**



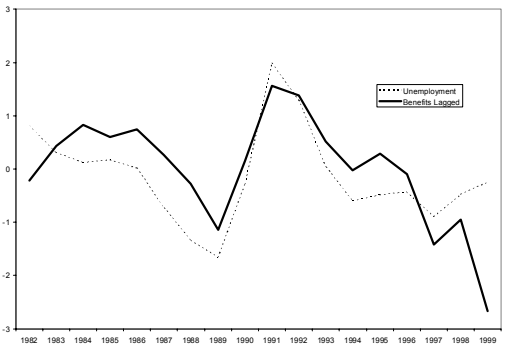

**Canada. Correlation Coefficient: +0.354**




**New Zealand. Correlation Coefficient: +0.467**




**United Kingdom. Correlation Coefficient: +0.609**




**United States. Correlation Coefficient: -0.358**

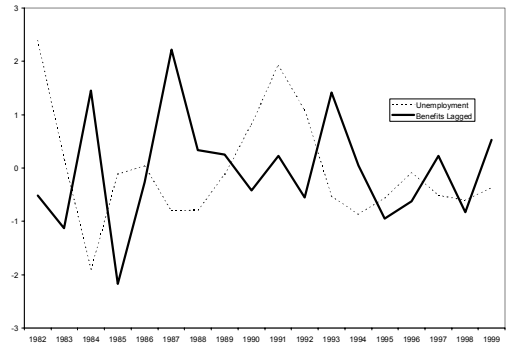
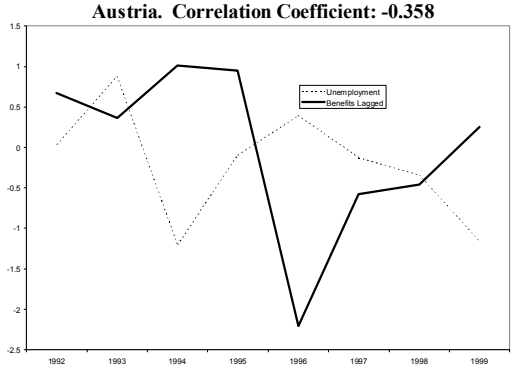
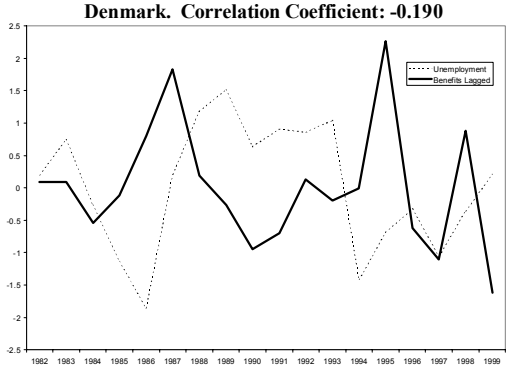


**Figure 4b. Standardized Changes in Unemployment Benefits (Lagged) and the Level of Unemployment in Countries with Corporatist Labor Markets, 1982-1999.**

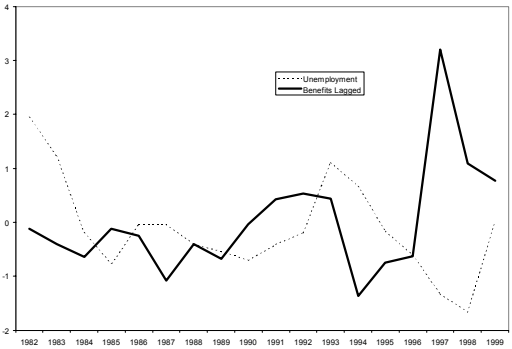
**Austria. Correlation Coefficient: -0.358**



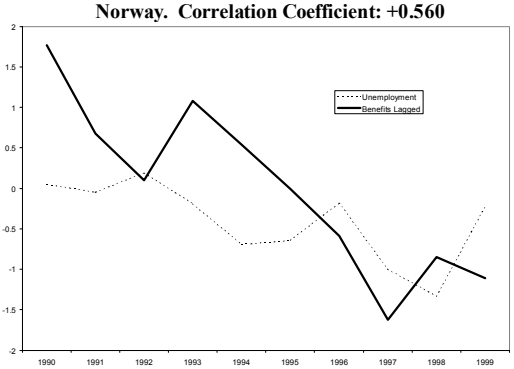

**Denmark. Correlation Coefficient: -0.190**




**Netherlands. Correlation Coefficient: -0.396**




**Norway. Correlation Coefficient: +0.560**




**Sweden. Correlation Coefficient: +0.144**



**Figure 5a. The Impact of Insurance Controlling for Risk (Added Variable Plot)**

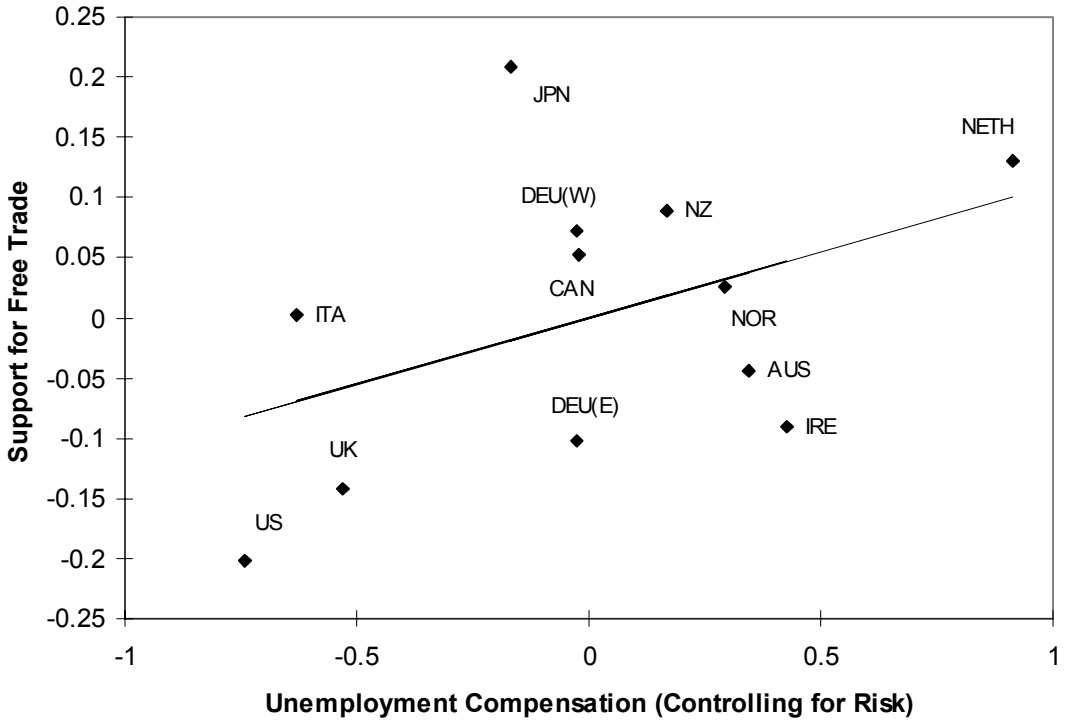
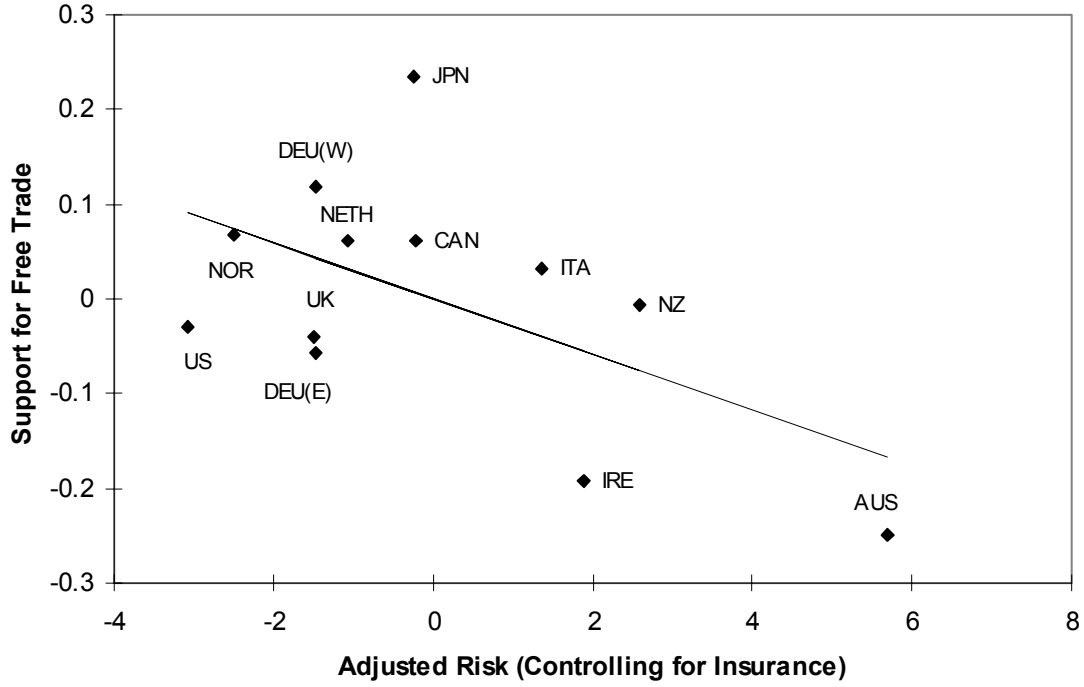



**Figure 5b. The Impact of Risk Controlling for Insurance (Added Variable Plot)**



## Table 3. Support for Free Trade: Ordered Probit

| Independent Variables | Model 1 (Baseline) | Model 2 (NRR) | Model 3 (GLW) | Model 4 (HLM) |
|---|---|---|---|---|
| Age | .0017** | 0.0018069** | .0014729* | 0.002219 |
| | (.0007) | (0.0007162) | (.0008228) | (0.001774) |
| Male | .2687** | 0.2690236** | .2727506** | 0.466423** |
| | (.0312) | (0.0308052) | (.0355713) | (0.062717) |
| Educyrs | .0489* | 0.0894776** | -.0417549 | 0.098531* |
| | (.0262) | (0.0303383) | (.0330173) | (0.045785) |
| Educyrs*GDP | 9.34e-07 | 7.97E-07 | 4.82e-06** | 0.000005** |
| | (1.01e-06) | (9.52E-07) | (1.36e-06) | (0.000002) |
| Earnrel | .0150** | 0.0146075** | .0145329** | 0.052792** |
| | (.0039) | (0.0000598) | (.0043018) | (0.018904) |
| Neighbor | .0012 | 0.0000598 | -.0049631 | 0.077136 |
| | (.0365) | (0.0364623) | (.0299082) | (0.045876) |
| Town | -.0529** | -0.0548896** | -.0511009** | -0.109292** |
| | (.0216) | (0.0204777) | (.0241663) | (0.048256) |
| County | .0738** | 0.0751328** | .0872679** | 0.136930** |
| | (.0248) | (0.0247371) | (.0295676) | (0.037968) |
| Continent | -.0886** | -0.0846658** | -.0918883** | -0.118064** |
| | (.0205) | (0.0201472) | (.0207683) | (0.037166) |
| Natprid2 | .1520** | 0.1538283** | .1568761** | 0.247669** |
| | (.0172) | (0.0180116) | (.018281) | (0.028099) |
| Natprid3 | .0651** | 0.0693019** | .0801848** | 0.137793** |
| | (.0313) | (0.0325101) | (.0338938) | (0.044539) |
| Natprid4 | .1463** | 0.1438286** | .1449067** | 0.238029** |
| | (.0245) | (0.0246092) | (.0277254) | (0.033305) |
| Austria | | | | |
| Sweden | | | | |
| Japan | | | | |
| Unemployment | | | | |
| Inflation | | | | |
| Unemployment | .0275* | 0.0135866** | .0373081** | 0.130051** |
| Insurance | (.0163) | (0.0053586) | (.0142203) | (0.046273) |
| Educyrs*Insurance | -.0013** | -0.0007045** | -.0009877 | -0.009597** |
| | (.0006) | (0.0002669) | (.0007679) | (0.002933) |
| Adjusted External Risk | -.0491* | -0.0484665** | -.0195013** | -0.052353 |
| | (.0266) | (0.0236293) | (.0094943) | (0.041403) |
| Cut1 | .7641 | 1.485668 | .9033025 | 2.496347 |
| Cut2 | 1.8426 | 2.565231 | 1.980875 | 1.907232 |
| Cut3 | 2.4911 | 3.214138 | 2.658099 | 3.041573 |
| Cut4 | 3.5251 | 4.248029 | 3.695325 | 4.999499 |
| No. Obs. | 11224 | 11224 | 10036 | 11224 |
| Pseudo $R^2$ | .071 | .071 | .077 | |
| Log Likelihood | -15688.437 | -15682.293 | -13967.949 | -32925.34 |

Parentheses contain robust (cluster) standard errors. * = p-value < .10, ** = p-value < .05

## Table 3 (Continued). Support for Free Trade: Ordered Probit

| Independent Variables | Model 1 (Baseline) | Model 5 (Imputation) | Model 6 (EU) | Model 7 (Japan) | Model 8 (Macro-Econ) |
|---|---|---|---|---|---|
| Age | .0017** | -.0001 | .0016914** | .0018415** | .0018281** |
| | (.0007) | (.0008) | (.0007255) | (.0007494) | (.0007934) |
| Male | .2687** | .2631** | .2696164** | .2642596** | .2641234** |
| | (.0312) | (.0282) | (.0312784) | (.0307115) | (.0300435) |
| Educyrs | .0489* | .0321 | .0544717** | .0747697** | .0689679** |
| | (.0262) | (.0297) | (.0260206) | (.0197593) | (.029574) |
| Educyrs*GDP | 9.34e-07 | 1.76E-06 | 6.55e-07 | -7.96e-08 | 2.42e-07 |
| | (1.01e-06) | (1.10E-06) | (1.01e-06) | (7.65e-07) | (1.31e-06) |
| Earnrel | .0150** | .0132** | .015689** | .0174228** | .0170726** |
| | (.0039) | (.0039) | (.0037308) | (.0051796) | (.0063684) |
| Neighbor | .0012 | .0084 | .0010025 | .0341329 | .0376433 |
| | (.0365) | (.0318) | (.0359538) | .0271135 | (.0257305) |
| Town | -.0529** | -.0477** | -.0561451** | -.0544996** | -.0534885** |
| | (.0216) | (.0157) | (.0215004) | (.0207635) | (.0231005) |
| County | .0738** | .0819** | .0637351** | .066865** | .0700498** |
| | (.0248) | (.0210) | (.0219198) | (.019634) | (.0213248) |
| Continent | -.0886** | -.0880** | -.0915036** | -.0742696** | -.0741663** |
| | (.0205) | (.0198) | (.0203396) | (.0184106) | (.0192673) |
| Natprid2 | .1520** | .1578** | .1501649** | .1538635** | .1519376** |
| | (.0172) | (.0128) | (.0180538) | (.0167846) | (.0147712) |
| Natprid3 | .0651** | .0794** | .063543** | .0850667** | .0816095** |
| | (.0313) | (.0254) | (.0304554) | (.0276837) | (.0263509) |
| Natprid4 | .1463** | 0.1500** | .144161** | .1316541** | .1317161** |
| | (.0245) | (.0198) | (.023993) | (.0208558) | (.0190812) |
| Austria | | | -.4824634** | -.4264432** | -.3594132** |
| | | | (.080224) | (.0597757) | (.1607684) |
| Sweden | | | -.0230215 | .037163 | .0292805 |
| | | | .0704997 | .0527196 | (.0538929) |
| Japan | | | | .7776729** | .8071592** |
| | | | | (.0700384) | (.2124026) |
| Unemployment | | | | | .0145241 |
| | | | | | (.029483) |
| Inflation | | | | | -.012156 |
| | | | | | (.0465117) |
| Unemployment | .0275* | .0285* | .0291311* | .0382539** | .0407033** |
| Insurance | (.0163) | (.0162) | (.0150593) | (.0148569) | (.0167239) |
| Educyrs*Insurance | -.0013** | -.0011 | -.0014412** | -.0016851** | -.0017598** |
| | (.0006) | (.0007) | (.0005077) | (.0006114) | (.0006009) |
| Adjusted External Risk | -.0491* | -.0268 | -.0594007** | -.060358** | -.0569272** |
| | (.0266) | (.0277) | (.0250095) | (.0181587) | (.0195292) |
| Cut1 | .7641 | .9439 | .6499887 | .9339301 | 1.060948 |
| Cut2 | 1.8426 | 1.9964 | 1.733998 | 2.031149 | 2.158084 |
| Cut3 | 2.4911 | 2.6539 | 2.384606 | 2.690978 | 2.818348 |
| Cut4 | 3.5251 | 3.6616 | 3.419091 | 3.748163 | 3.876318 |
| No. Obs. | 11224 | 18606 | 11224 | 11224 | 11224 |
| Pseudo $R^2$ | .071 | .073 | .073 | .082 | .082 |
| Log Likelihood | -15688.437 | -25879.794 | -15654.362 | -15506.401 | -15503.36 |

Parentheses contain robust (cluster) standard errors. * = p-value < .10, ** = p-value < .05

[1] There is a large and growing literature on globalization in political science. Keohane and Milner (1996), Cohen (1996), and Garrett (1998b) provide excellent reviews.

[2] Obviously, our international-comparative division is a simplification of the research. However, by grounding our paper in a much larger debate, the distinction serves a useful purpose. In the quantitative research on globalization and related topics, the forest is missed too frequently for the trees.

[3] The divergent paths argument developed in response to the (pessimistic) convergence thesis, popular in the early comparative research on globalization, which argued the internationalization of markets would force all countries to converge onto a single neo-liberal political economic model (e.g., Freeman 1990, Kurzer 1993, Moses 1994, Steinmo 1994).

[4] John Ruggie (1982) introduced the concept of embedded liberalism in his seminal article on hegemony and international economic orders. Embedded liberalism is the domestic social compact on which the post-WWII international economy was built. It recognized the importance of maintaining a liberal international economic order based on free trade and multilateral cooperation, but this commitment to liberalism was embedded within a more important obligation of governments to protect domestic social welfare. The bargain was shaped by two important lessons learned after the collapse of the gold standard and interwar international economy: that the internal costs of economic adjustment could not be ignored by governments if they were to maintain political support for free trade and that the international economy could not survive if states pursued unilateral foreign economic policies.

[5] While Garrett (1998a) stresses the combination left-wing governance and encompassing labor market institutions, in the long run the balance of political power is endogenous in his framework (see Figure 2.2, 48). For example, countries that combine right-wing governance with encompassing labor market institutions will move toward social democratic corporatism over time. In other words, the power balance

will shift to the left. Therefore, ultimately, it is a country's labor market institutions that will determine its response to globalization.

[6] For a discussion of this important distinction, see Garrett and Mitchell (2001, 163-4).

[7] Adsera and Boix (2002) have also criticized Rodrik for treating openness as exogenous. They build a theoretical model showing that levels of trade openness reflect an endogenous political choice. Unfortunately, they do not account for this endogeneity in their empirical models.

[8] The main advantage of using the Lijphart and Crepaz measure of corporatism is that scores are available for a large number of countries (18). Unfortunately, measures like Iversen's wage bargaining centralization and Garrett's left-labor variables are not available for a significant number of OECD countries. Next to Lijphart and Crepaz, the Golden, Lange, and Wallerstein measure is the most extensive.

[9] The supply and demand framework Rodrik uses assumes a competitive labor market.

[10] Our measure of sector trade openness is the period average of the annual total value of exports and imports for the sector divided by its value added. Our measure of labor market volatility is the coefficient of variation in wages (from year to year within periods). We would like to have included similar data for Australia and New Zealand, but it is not available. Data for the Canadian machinery and transport equipment sectors was also unavailable.

[11] Our data on unemployment insurance and levels of unemployment come from the OECD's Social Expenditures Database and Quarterly Labour Force Statistics respectively.

[12] To create the adjusted risk variable, we first rescaled the Lijphart and Crepaz measure of corporatism so that Norway, the country with the highest corporatism score in the sample, has a score of zero and the US and Canada, which are tied for the lowest corporatism score in the sample, have scores of 2.87. In other words, we subtracted 1.53 from each country's corporatism score and then multiplied the result by –1. Then we multiplied the rescaled variable by each country's terms of trade volatility.

[13] These plots do not include Austria and Sweden because these countries joined the EU in 1995, the year the ISSP survey was conducted, and we believe their accession had a significant impact on individual answers to survey questions about free trade. In other words, we believe that the average levels of support for free trade in Austria and Sweden in 1995 are strongly influenced other issues surrounding European integration and therefore may not reflect traditional levels of support for trade in these countries. The regression results below, however, are the same with or without Austria and Sweden in the sample.