Economic Globalization and the Welfare State in Affluent Democracies, 1975–2001

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Previous scholarship is sharply divided over how or if globalization influences welfare states. The effects of globalization may be positive causing expansion, negative triggering crisis and reduction, curvilinear contributing to convergence, or insignificant. We bring new evidence to bear on this debate with an analysis of three welfare state measures and a comprehensive array of economic globalization indicators for 17 affluent democracies from 1975 to 2001. The analysis suggests several conclusions. First, state-of-the-art welfare state models warrant revision in the globalization era. Second, most indicators of economic globalization do not have significant effects, but a few affect the welfare state and improve models of welfare state variation. Third, the few significant globalization effects are in differing directions and often inconsistent with extant theories. Fourth, the globalization effects are far smaller than the effects of domestic political and economic factors. Fifth, the effects of globalization are not systematically different between European and non-European countries, or liberal and non-liberal welfare regimes. Increased globalization and a modest convergence of the welfare state have occurred, but globalization does not clearly cause welfare state expansion, crisis, and reduction or convergence. Ultimately, this study suggests skepticism toward bold claims about globalization's effect on the welfare state.

Oone of the most pressing social science controversies involves the relationship between globalization and the state, and especially economic globalization and the welfare state. Scholars, public figures, analysts, and theorists all have contributed to an extensive and rapidly growing literature. Among many, a consensus is emerging that globalization has at least *some* type of relationship with the welfare state, even if the exact nature of that relationship remains unclear. Fundamentally, this consensus suggests that analysts need to consider the global economy when studying what have traditionally been considered domestic political phenomena (Berger 2000; Evans 1997; Guillén 2001). As Milner and Keohane (1996:3) remark, "We can no longer understand politics within countries—what we still conventionally call 'domestic' politics—without comprehending the nature of the linkages between national economies and the world economy, and changes in such linkages." Despite this emerging consensus, many social scientists remain skeptical

that globalization really is a significant influence on welfare states.

Previous scholarship offers different theories of how economic globalization will or will not affect the welfare state. Theories of positive, negative, curvilinear, and insignificant effects can be contrasted with each other, and may even be irreconcilable. Our goal is to scrutinize these contrasting theories empirically. We analyze pooled time series data for 17 affluent democracies from 1975 to 2001. Our focus is on three measures of the welfare state: decommodification, social welfare expenditures, and social security transfers. We consider a wide variety of globalization indicators reflecting different images of advantage, openness, or threat. Hence, we examine comprehensively the effects from different facets of economic globalization for multiple measures of the welfare state. To our knowledge, we provide the most comprehensive assessment of different theories of globalization and the welfare state in this most recent historical period.

THEORETICAL BACKGROUND

Images of globalization vary widely (Guillén 2001). We restrict our focus to economic globalization, henceforth simply referred to as "globalization." We conceptualize globalization as the intensification of international economic exchange and the label for the contemporary era of international economic integration. Thus, globalization involves the current economic environment shaping welfare states and the heightening of concrete economic exchanges between countries.

Four theories of the relationship between globalization and the welfare state have emerged.[1] First, globalization may cause an expansion. Second, globalization may generate a crisis and retrenchment. Third, globalization may have curvilinear effects and contribute to welfare state convergence. Fourth, as contended by prominent skeptics, globalization may not affect the welfare state.

GLOBALIZATION AS EXPANSION

Since Cameron's (1978) finding of a positive association between international economic openness and state size, many have claimed that globalization expands the welfare state. Historically, the small West European countries especially, as well as others, have been very outwardly oriented, engaging in high levels of international economic exchange (Katzenstein 1985). In turn, countries experienced greater volatility and uncertainty with fluctuations in international finance and trade. In response, governments developed social policies to stabilize the economic security of and politically appease their citizens. Thus, globalization triggers political dynamics that result in generous welfare programs and corporatist labor market institutions. Garrett (1998a) contends that globalization generates new constituencies for leftist parties among those made insecure by globalization, and in turn, leftist parties have greater incentives to expand the welfare state. Welfare states are expanded to compensate those harmed by economic openness, and to stabilize the economic resources of those experiencing the volatility of global markets (Rieger and Leibfried 2003; Seeleib-Kaiser 2001).

Consistent with these arguments, many studies have found that globalization has linear positive effects on welfare states (Garrett 1996, 1998b; Rodrik 1997, 1998). Hicks (1999), for example, finds that trade openness significantly increases social welfare expenditures. Garrett and Mitchell (2001) show that foreign direct investment openness is associated with greater taxation.

GLOBALIZATION AS CRISIS AND REDUCTION

In recent years, social scientists (e.g., Albrow 1997), humanities scholars (e.g., Hardt and Negri 2001), and journalists (e.g., Greider 1997) have claimed that globalization is causing a welfare state crisis and reduction. On one level, many contend that globalization marks the era of welfare state crisis (Cable 1995; Huber and Stephens 2000, 2001a, 2001b; Strange 1996).[2]

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[1] Our characterization of the literature seems consistent with how Hicks (1999:204) divides "the openness literature" into compensation (positive) and competitiveness (negative) perspectives, as well as his findings that openness has curvilinear effects and his acknowledgement that some view globalization as insignificant.

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[2] The language of "crisis" has been widespread (Castles 2004). Huber and Stephens (2001a) titled

Sometime after the 1973 Oil Crisis and the end of fixed exchange rates, and fully taking hold in the 1980s, welfare states underwent retrenchment (Clayton and Pontusson 1998; Hicks 1999:215). The era of globalization necessitates welfare state decline, as states lose autonomy over welfare policy in the face of the overwhelming global economy (Boswell and Chase-Dunn 1999; Castells 1996; Held et al. 1999; Strange 1996, 1997; Stryker 1998). States undergo neoliberal restructuring to foster flexibility and competitiveness in a new, more globalized economy (Jessop 2002). For example, as Stephens, Huber, and Ray (1999:191) explain, "Overall, then, by the late 1980s and early 1990s a picture of widespread cuts emerges, in some cases of considerable magnitude." Huber and Stephens (2001b:123) summarize, "We find that roll-backs and 'restructurings' in welfare state programmes have been a universal phenomenon in the past two decades."

This literature often has been vague about causal mechanisms, only alluding to increasing internationalization of the economy, with few concrete measures of globalization. Rather, studies generally infer that in an environment of increasing globalization, generous welfare states are uncompetitive (Alesina and Perotti 1997; Lindbeck 1995). After Sweden's early 1990s economic crisis, Freeman, Topel, and Swedenborg (1997) characterize its welfare state as "nearly impossible for the country to afford" (p. 11), "unsustainable" (p. 25), and "dysfunctional" (p. 27). Also, expanding international economic arrangements cultivate an environment where welfare states are not likely to thrive. For example, the continuing integration and expansion of the European Union has coincided with a movement for a thinner welfare state (Leibfried and Pierson 1995).

On another level, scholars contend that globalization is a major cause of welfare state reduction (Gray 1998; Rhodes 1996; Schwartz 2001; Strange 1996, 1997). Sassoon (1996:772) states, "To a large extent, the contemporary crisis of [West European] socialism is a by-product of the globalization of capitalism." Globalization triggers a race to the bottom, in which workers are recommodified, citizens have less social security, and capital dominates the state (Mishra 1999). International economic competition and integration force governments to scale back expensive welfare programs (Cable 1995; Frieden and Rogowski 1996; Huber and Stephens 2001a:227; Schulze and Ursprung 1999). Volatile capital mobility in unregulated global markets reduces the capacity of states to intervene in economies (Evans 1997:66; Milner and Keohane 1996). Gilbert (2002:38) concludes, "With the emergence of a well-integrated global market, however, national policymakers are increasingly being disciplined, and spending on redistributive social benefits is squeezed by the mobility of capital to go where production costs are low." Consequently, other states are forced to follow suit, and all retrench toward welfare state residualism.

Like the expansion literature, the welfare state reduction literature emphasizes how globalization influences the politics of the welfare state. But in this case, globalization forces states and political actors to reduce the welfare state because of the need to be internationally competitive with a flexible labor force and austere fiscal policy.

Many studies link concrete measures of globalization to welfare state cutbacks. Garrett and Mitchell (2001) find that trade and financial openness are associated with less government spending. Swank and Steinmo (2002) conclude that globalization significantly changes the politics of taxation. Burgoon (2001) shows that trade openness reduces several measures of the welfare state. Stephens et al. (1999:164) explain, "It is by now a widely accepted view that the sea change in advanced capitalist economies of the past two decades, above all the increasing internationalization of these economies, has constricted the policy options of the governments of these societies." Huber and Stephens (2001a:11) write, "Since the 1980s, different dimensions of globalization have weakened both the economic and political bases of generous welfare states."

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their recent book *The Development and Crisis of the Welfare State*. In Hicks' (1999) recent book, the chapter titles include "The Growth and Crisis of the Welfare State" and "Course and Causes of the Crisis." In Sassoon's (1996) monumental history of the 20th century, *West European Left,* the third and final book is entitled *Crisis*.

GLOBALIZATION AS CURVILINEAR EFFECTS AND CONVERGENCE

Recently, a new line of thinking has emerged from empirical studies of globalization and the welfare state. A number of scholars contend that globalization has a curvilinear relationship with the welfare state (Hicks 1999; Rodrik 1997). At lower initial levels, globalization originally triggers an expansion of the welfare state with economic development. But at higher levels, globalization causes contractions in mature, generous, already developed welfare states (Huber and Stephens 2001a:237, 240; Rodrik 1997; Seeleib-Kaiser 2001). This theory unites the first two views of globalization's effects on the welfare state. In quantitative welfare state models, globalization has a positive effect in the linear main term, but a negative effect in the squared term. For example, Hicks (1999:213) finds that investment openness has such a curvilinear effect on social welfare expenditures, and provides some evidence that trade openness has a similar relationship.[3] Relatedly, Allan and Scruggs (2004) find that while trade openness had no effect on unemployment replacement rates before the welfare state development peak—a point they qualitatively define in each country in the early 1980s—trade openness had a significant negative effect after welfare states have matured.

Curvilinear effects, to a certain extent, suggest a link between globalization and welfare state convergence (Castles 2004; Montanari 2001:471; Scharpf 1997). According to this interpretation, globalization forces both high and low spenders toward mean levels of welfare effort. Thus, a convergence interpretation builds

from the empirical reality that more globalized economies tend to have more generous welfare states (Cameron 1978, Rodrik 1998). For the highly globalized nations with generous welfare states, even greater levels of globalization would entail welfare retrenchment. For the less globalized nations with minimal welfare states, globalization would trigger expansion. Thus, globalization may force the most generous welfare states to reduce their extensiveness and force the least generous to increase to a moderate "normal" level.[4] One can expect a process of symmetric convergence where big spenders retrench while low spenders expand the welfare state. In both cases, this is because of the need to make it politically feasible to expose the economy to international trade and capital (Garrett 1998a). Even skeptics of globalization arguments concede that some welfare state convergence has occurred in the globalization era (Wilensky 2002; Williamson 1996).

GLOBALIZATION AS INSIGNIFICANT

Despite the extensive literature connecting globalization and the welfare state, many remain skeptical that globalization has *any* effect on the welfare state. Several studies have sought to demonstrate that globalization is not affecting the welfare state (Atkinson 2002; Bairoch 1996; Fligstein 2001; Hirst and Thompson 1996; Wade 1996; Wilensky 2002). For example, Steinmo (2002) finds little evidence that globalization undermines the generous Swedish welfare state. Others contend that globalization is simply less salient than domestic politics (Gilpin 2001; Kittel and Winner 2005; Mosley 2003; Myles and Pierson 2001). Many emphasize that national histories, cultures, and institutions continue

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[3] Hicks (1999:241) explains, "After the 1970s onset of economic troubles . . . world economic globalization ushered in an era of challenges to welfare state variation. Intensifications of international economic competitiveness increased pressures for enhanced economic flexibility and efficiency. These pressures, made writ by neoliberal economic orthodoxy, depressed state taxing, spending, and regulatory activity." Surprisingly, however, Hicks finds that trade openness increases the likelihood of a welfare retrenchment event, while its square reduces the likelihood, and that investment openness squared has a negative effect on the likelihood of welfare retrenchment.

[4] For example, consider that Sweden has a generous welfare state and is highly globalized, while the United States is less globalized and has a minimal welfare state. Curvilinear effects (+ and –) would suggest convergence of these two countries. If the United States increases from low to moderate globalization, the welfare state should grow. If Sweden increases from high to very high globalization, the welfare state should shrink. In turn, both would converge toward the mean. Of course, there are other interpretations of curvilinear effects that would not necessarily entail convergence.

to dominate the politics of each country's unique welfare state (Berger 2000; Kuhnle 2000).

Beyond the general claim that globalization is insignificant, globalization skeptics can be categorized into four major theoretical alternatives. To a certain extent, all welfare state theories that do not emphasize globalization could be viewed as alternatives. We concentrate on these four because they have been most prominent in trying to explain welfare states in the globalization era, and/or have been posited against such globalization arguments.

First, a few studies have claimed that although globalization does not have general effects on all welfare states, it does have contingent effects in certain contexts. That is, globalization's effects are conditional on specific institutional circumstances. For instance, Swank (2002) contends that globalization does not threaten the generous social democratic and corporatist welfare states. Rather, globalization undermines only the uncoordinated liberal welfare states, and should not have general effects across all countries (Hall and Soskice 2001:56–58). In contrast, others argue that the most pronounced welfare state crisis is occurring in Western Europe, and globalization, with other factors, underlies this crisis (Korpi 2003). Gray (1998:89) contends that the "global mobility of capital and production in a world of open economies have made the central policies of European social democracy unworkable." Thus, globalization might be more influential in European than in non-European countries.

Second, one of the most prominent welfare state theories in recent years has contended that "new politics" govern social policy (Pierson 2001). Pierson (1994, 1996) emphasizes that welfare states have resiliently resisted significant retrenchment or crisis. Advocates of a new politics account contend that the welfare state represents the status quo in affluent democracies (Myles and Pierson 2001). In mature welfare states, constitutional structure, power sharing across different institutions, and the popularity of programs with constituencies of beneficiaries prevents retrenchment. The size and growth of populations of consumers of welfare benefits (e.g., the elderly) bolster welfare state stability and even foster further expansion. One crucial extension of the new politics account is that partisanship and class politics became less relevant to understanding welfare

state developments after the early 1980s (Huber and Stephens 2001a; Pierson 1996, 2001).

Third, partly as a response to the new politics perspective, scholars have countered that "politics as usual" continues to drive the welfare state (Allan and Scruggs 2004; Kwon and Pontusson 2005). These critics of the new politics account have argued that the traditional analyses of welfare spending or welfare effort obscure how class and partisan politics continue to influence the welfare state because the classic dependent variables miss the political action (Korpi 2003). Only with more sophisticated measures of the welfare state can one detect how partisan and class politics explain welfare state variation and retrenchment. For example, Korpi and Palme (2003) contend that power resources of labor and leftist mobilization explain welfare state retrenchment. Allan and Scruggs (2004) emphasize that while left parties failed to expand the welfare state after their peaks in the early 1980s, right parties instigated retrenchment after that point. For Allan and Scruggs, left parties caused expansion of the welfare states in earlier years, while right parties triggered retrenchment after welfare states were institutionally mature.

Fourth, in contrast to claims that globalization has either positive or negative effects, Iversen and Cusack (2000) contend that it is really deindustrialization that drives welfare state expansion (also Iversen 2001; Iversen and Wren 1998). The decline of manufacturing and agricultural employment, the traditional sectors of domestic production, generates a decline in long-term stable employment for the working class. As a result, deindustrialization creates a large population that requires more government services and welfare state spending. Iversen and his collaborators argue that globalization's effects are less relevant after the decline of manufacturing and agricultural employment are considered.

LIMITATIONS OF PAST RESEARCH

Despite a wave of research, a great deal of dissensus remains over whether globalization has positive, negative, curvilinear, or no effects. Indeed, empirical support and exemplary studies exist for each of these seemingly contradictory theories. Garrett's work is perhaps most supportive of the view that globalization causes an expansion of the welfare state. Huber and

Stephens present the most convincing evidence of crisis and retrenchment. Hicks (1999) probably is the best example of the curvilinear effects argument. Many recent studies have provided skeptical accounts of globalization's insignificance. Much of this dissensus is due to varying modeling techniques, periods of analysis, samples of countries, variable specifications, and the divide between comparative-historical narratives and comparative-quantitative approaches.

We highlight three general limitations of this body of research. First, most research continues to analyze the well-examined, longer period of welfare state development from 1960 to the early to mid-1990s. We lack studies that scrutinize mature welfare states in the distinct historical period since the mid-1970s that marks the globalization era (Kittel and Winner 2005). Our study is one of the few to concentrate on this era and to include the later 1990s (Allan and Scruggs 2004). Second, past research has not been sufficiently comprehensive in assessing the multiple dimensions and various measures of globalization. Our analysis represents the most comprehensive examination of globalization to date. Third, studies that support one of the aforementioned theories often neglect the supportive findings of the alternative theories. In this sense, we hope to synthesize the advances across the four perspectives. By incorporating the findings of recent research—including studies that follow and even respond to Garrett, Huber and Stephens, and Hicks (1999), for example—our models provide a more balanced assessment of the evidence for the contrasting theories. Ultimately, we aim to advance research in this area by providing a synthetic, comprehensive, and balanced empirical examination of the relationship between globalization and the welfare state in affluent democracies from 1975 to 2001.

DATA AND METHODS

Our study uses a pooled time series analysis of 17 affluent democracies from 1975 to 2001, including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. We analyze this period for substantive and methodological reasons. Substantively, we begin after the 1973 Oil Crisis and the end of fixed exchange rates (i.e., when

most approximate the beginning of the contemporary globalization era; see Guillén [2001]). Methodologically, most globalization indicators are not available for most countries before 1975. For 15 countries, we have complete time series. However, for two countries, missing data for several globalization variables force us to exclude some earlier years. The Japan series is 1978–2001, and the Switzerland series is 1984–2001.[5] In turn, our sample includes a maximum of 447 country-years as cases. To assess the robustness of our results to alternative periodizations, we estimated models for the 1990s and for the post-1983 period (since many date the peak and onset of the decline to the early 1980s). In analyses available upon request, the results were substantively identical, with minor exceptions.

Following similar recent sociological analyses (Hicks 1999; Huber and Stephens 2000, 2001a), we use Beck and Katz's (1995) technique of ordinary least squares with panel-corrected standard errors (OLS-PCSE) and a first-order autocorrelation correction (AR1).[6] Although this strategy is arguably most defensible for our purposes (Beck 2001; Plümper, Troeger, and Manow 2005), we experimented with panel techniques as well.[7] Our conclu-

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[5] We reestimated the final models (Table 2) with these countries excluded, and the results were generally consistent (available upon request).

[6] Despite this convention among sociologists, some political scientists argue for a lagged dependent variable (LDV) instead of an AR1 correction (Beck 2001; Beck and Katz 1996; Garrett and Mitchell 2001). However, Plümper et al. (2005) show that our strategy is probably the most defensible. They show that the t scores of the LDVs are biased upward and that the coefficients and t scores for other independent variables are biased downward. In sensitivity analyses available upon request, we estimated the final models using OLS-PCSE with an LDV and OLS-PCSE with country dummies, and these results were consistent with our conclusions.

[7] Because the sample includes more years (24) than countries (17), Beck (2001) would argue that the dataset should be considered a pooled time series rather than a panel. As a result, we use a pooled time series technique rather than panel techniques. In analyses available upon request, we estimated the final models with the Arellano–Bond dynamic panel estimator and fixed effects models with an autocor-

sions were generally consistent with these alternatives, so we confine our presentation to OLS-PCSE AR1 analyses.

With statistical significance and basic fit, the Bayesian Information Criterion Prime (BIC′) assists model comparison (Raftery 1995). BIC′ selects the more parsimonious model unless fit is significantly enhanced. The model with the greater negative value of BIC′ is preferred, and a BIC′ difference of 0–2 offers weak evidence, 2–6 offers positive evidence, 6–10 offers strong evidence, and more than 10 offers very strong evidence.

The descriptive statistics and sources for our variables are available in Table S1 of the *ASR* Online Supplement (http://www2.asanet.org/journals/asr/2005/toc048.html). Data for many of the variables are proximately from Huber et al.'s (2004) *Comparative Welfare States Database*. We also provide a correlation matrix in Table S2 (see *ASR* Online Supplement).

DEPENDENT VARIABLES

We focus on three measures of the welfare state: *decommodification, social welfare expenditures as a percentage of gross domestic product (GDP), and social security transfers as a percentage of GDP*. The first is Allan and Scruggs' (2004) new index, which replicates and extends Esping-Andersen's (1990) original index. This measure combines information on coverage, qualifying periods for eligibility, and replacement rates for unemployment, sickness, and pension welfare programs. This variable is the most sophisticated publicly available index of its kind and has only begun to be empirically analyzed (Allan and Scruggs 2004). The decommodification index is available for all 447 cases.

The second, social welfare expenditures, is a standard measure of spending on welfare cash and noncash transfers and welfare services as

a percentage of the GDP.[8] This measure is available from 1980 to 2001 for a total of 370 cases. The third, social security transfers, includes all state-sponsored cash transfers for sickness, old age pensions, family allowances, unemployment and workers' compensation, and other assistance. This measure is available for all but a few of the recent country-years and ends in 2000, for a total of 424 cases.[9]

BASELINE MEASURES

Our baseline model of established sources of welfare state variation initially replicates Huber and Stephens (2000, 2001a:52–53). Their model serves as a point of departure because it is an influential state-of-the-art synthetic model that shares a great deal with most contemporary models of welfare states (e.g., Hicks 1999). We also build on their model because we are using the same dataset, can construct their operationalizations, and analyze two of the same dependent variables.

Following convention, we lag all independent variables 1 year. *Left cabinet* is measured in terms of the cumulative left seats as a percentage of government seats since 1946. This measure tabulates left seats as a proportion of seats held by all government parties in each individual year and then sums these percentages since 1946. *Christian democrat cabinet* is measured the same as left cabinet, but for centrist Catholic and protestant parties. We measure *union density* in terms of gross union members as a percentage of total wage and salaried employees. *Constitutional structure* is measured as the number of constitutional veto points.[10] *Female labor force participation* is the percentage of women

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relation correction, and these results were consistent with our conclusions.

[8] Because social welfare expenditures and social security transfers are expressed as a percentage of GDP, they may be sensitive to the business cycle. To address this concern, we estimated models of *per capita* welfare spending (multiplying these dependent measures by GDP per capita). The results (available upon request) for these new variables, social

welfare expenditure per capita and social security transfers per capita, were nearly identical to the final models (Table 2).

[9] Unfortunately, this variable is not available for the United States and Canada for 1999–2000 nor Switzerland for 2000. In analyses available upon request, we estimated the models with the common end point of 1998. The results were substantively identical, with minor exceptions (details are available upon request).

[10] Huber and Stephens sum measures of federalism, presidential system, single member district plurality electoral systems, the strength of bicameralism, the frequency of referendums, and judicial review.

in the labor force ages 15 to 64 years. We also include an *interaction of female labor force participation* and *current left cabinet* after both have been centered on their means. *Voter turnout* is the percentage of the adult population that voted in the most recent national election. The *elderly population* is the percentage of the population older than 65 years. *Strikes* denote working days lost per thousand workers. *Authoritarian legacy* is a dummy for an authoritarian regime in the late 19th century. The *GDP per capita* is the gross domestic product in real purchasing power parity dollars divided by the total population. *Year* is coded as 0 (1975), 1 (1976), 2 (1977) . . . 23 (1998).[11] *Inflation* is the annual percentage change in the consumer price index. *Unemployment* is the percentage of the total labor force unemployed. *Military spending* is measured as a percentage of GDP.

In addition to focusing on the three dependent variables, our baseline models involve two major extensions beyond Huber and Stephens. First, we concentrate on the most recent historical period. Second, we incorporate three additional variables. Following Iversen and Cusack's (2000) emphasis on deindustrialization as the cause of welfare state expansion, we include *manufacturing and agricultural employment* as a percentage of the total labor force. Influenced by Hicks' (1999) account of the central role of corporatism and working class mobilization, we include Kenworthy's (2003) index of *wage coordination*. Based on recent studies of the contemporary era (e.g., Allan and Scruggs 2004), we include a measure of *right cabinet,* which is a historically cumulative variable like the left and Christian democrat cabinet variables. Our measure sums "right" parties, "right Christian" parties, and "right Catholic" parties in Huber et al. (2004).

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[11] Though we follow Huber and Stephens' (2000, 2001a) detrending approach, some may be concerned with our inclusion of both an AR1 correction and year. In turn, we estimated models without the AR1 correction, and the results for the globalization covariates were substantively identical, with minor exceptions. Since the year covariate is correlated with some of the other independent variables, we also estimated models without year but with the AR1 correction, and again the results were substantively consistent.

GLOBALIZATION MEASURES

Our study aims to improve upon existing studies of globalization and the welfare state. Hence, our operationalization of globalization is guided by three concerns. First, we provide a comprehensive analysis of multiple facets of globalization. Often, globalization has been operationalized with only a few convenient indicators like trade openness. Moreover, the previous literature does not provide a theoretical case for a parsimonious set of globalization indicators that are most salient or relevant for testing its influence on the welfare state. We embrace the reality that the measurement of globalization is contested and that the literature has yet to converge on a single measure (Guillén 2001; Held et al. 1999). We take a conservative approach and consider a wide variety of globalization indicators. As our analysis shows, doing so is advantageous. Different indicators show different and unanticipated effects.

Second, we focus on the largest dimensions of international economic exchange. Thus, we do not limit our focus to exchange with developing countries. Sometimes, analysts do so to test a precise hypothesis concerning, for example, investment fleeing to or imports from developing countries (Alderson 1999; Burgoon 2001). Unfortunately, this has the consequence of omitting the vast majority of the globalization experienced by affluent democracies. Most international economic exchange occurs among affluent democracies, so it is essential to incorporate investment in and trade with all countries (Gilpin 2001; Hirst and Thompson 1996).

Third, our measures of globalization are motivated by key conceptual distinctions. Globalization has been conceptualized as advantage (the benefits from outward flowing goods and services and inward flowing investment), openness (the extent to which national economies are accessible to international exchange), and threat (the danger of inward flowing goods, services, and labor and outward flowing investment). For the most part, globalization as expansion focuses on advantage and openness; globalization as crisis and retrenchment focuses on openness and threat; and globalization as curvilinear effects and convergence incorporates all three. Concretely, globalization includes trade, direct and portfolio investment, the legal institutions enabling international exchange (Quinn 1997), and the migration of

labor. Cross-classifying these concepts with concrete measures, we comprehensively examine globalization's possible effects on the welfare state.[12] In turn, we empirically evaluate the effects of 17 measures of globalization. Most of the indicators are expressed as a percentage of GDP. We note when they are not.

We include six indicators of globalization advantage. *Inward foreign direct investment* (FDI) represents capital flows in which a foreign firm acquires at least a 10 percent ownership share and management of a domestic firm or facility. *Inward portfolio investment* (PI) is bond or equity financial flows that amount to less than a 10 percent ownership of domestic firms by foreign investors. *Net investment* is the difference between inward and outward FDI and PI (see below). Inward investment and positive net investment are advantages of globalization in that they are the opposite of capital flight and strengthen the national economy. *Exports* are the value of all goods and services flowing out of a country and into a foreign country. *Net trade* is the difference between exports and imports (see below), with positive values indicating a trade surplus and negative values indicating a trade deficit. *Net globalization* is a new measure that sums net investment and net trade and represents the extent to which countries export more than they import and receive more investment than they send out. This measure distinguishes between countries that "win" from those that "lose" from globalization, including both investment and trade dimensions.

We consider six measures of globalization openness.[13] *FDI openness* is the sum of inward

and outward FDI. *Investment openness* is the sum of inward and outward FDI and inward and outward PI. *Trade openness* is the sum of exports and imports. *Total globalization* is a new measure that sums trade openness and investment openness. The *Capital Accounts Liberalization Index* is Quinn's (1997) measure of the legal openness for capital accounts transactions across national boundaries. The *Current Accounts Liberalization Index* is Quinn's measure assessing the legal openness of national boundaries to current accounts transactions.

We analyze five measures of globalization threat. *Outward FDI* represents capital flows in which a domestic firm acquires at least a 10 percent ownership share and management of a foreign firm or facility. This variable represents capital flight. *Outward PI* is bond or equity financial flows that amount to less than a 10 percent ownership of foreign firms by domestic investors. *Imports* are the value of all goods and services flowing into a domestic economy from a foreign country. *Imports from LDCs* is the value of all goods and services flowing into the domestic economy from a less developed country (LDC). *Net migration* is the difference between the domestic populations in the previous and current years that remains after accounting for births and deaths.[14] Positive values indicate net in-migration, while negative values represent net out-migration.

RESULTS

We first provide baseline models of the three dependent variables by revising Huber and

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[12] We do not think it is possible to select one indicator as a perfect test of each theory of globalization's effects. Instead, we follow Guillén (2001:255): "Globalization is neither a monolithic nor an inevitable phenomenon. Its impact varies across countries, societal sectors, and time. It is contradictory, discontinuous, even haphazard. Therefore, one needs to be open-minded about its unexpected and unintended consequences." Many of the globalization indicators have been previously examined, so for those, we are simply following convention. However, we move beyond past research by bringing them all together in one study and incorporating new and previously neglected measures.

[13] Commonly, scholars measure trade openness and simply call it "economic openness." We believe

that analysts need to be more precise, because we show that direct and portfolio investment and trade have different effects.

[14] Unfortunately, more valid and reliable cross-national and historical data on immigration are simply not available. The Organization for Economic Cooperation and Development (OECD) provides data on variables such as the percentage of the population foreign born, but these data are not available before the mid-1980s, and even after then are spotty for many nations. We appreciate that these net migration estimates should be interpreted with caution. There is a certain circular reasoning in that the population, birth, and death estimates are probably based themselves on statistical estimates of immigration.

Stephens' (2001a) model of the welfare state. Second, we assess a comprehensive array of linear and curvilinear effects of globalization indicators net of the revised baseline model. Third, we present final models of the most important globalization indicators and the revised baseline model. Fourth, we conduct sensitivity analyses of subsamples of countries.

BASELINE RESULTS

In the first models in Table 1, left cabinet, the elderly population, and unemployment (at least at the .10 level) are significantly positive for all three dependent variables. Christian democrat cabinet and authoritarian legacy are significantly positive, and constitutional structure is significantly negative for at least one of three dependent variables. Some central variables in Huber and Stephens' "power constellations" approach fail to reach significance: Christian democrat cabinet and constitutional structure do not significantly affect social welfare expenditures or social security transfers, and union density, the interaction of female labor force participation and current left cabinet, voter turnout, strikes, and inflation are insignificant for all three dependent variables. Some coefficients are significant in opposite directions across dependent variables and inconsistent with past research. Female labor force participation is significantly positive for decommodification, but is nearly significantly negative for social security transfers. GDP per capita is significantly positive for decommodification at the .10 level, but is significantly negative for social security transfers. Military spending significantly reduces decommodification at the .10 level, but significantly increases social security transfers.

Thus, the first models only partially support the Huber–Stephens model. The causal processes generating welfare state development in earlier periods do not entirely explain variation across welfare states from 1975 to 2001 (Allan and Scruggs 2004; Pierson 2001), something recognized by Huber and Stephens (2001a) and Hicks (1999). Moreover, these results illustrate that some variables have very different effects on Scruggs' decommodification index, as compared with established measures like social welfare expenditures and social security transfers.

Hence, models of the welfare state warrant revision in the globalization era.

We revise the Huber–Stephens model by dropping variables where the t score fails to reach the lenient threshold of 1.0 (in absolute value) for any dependent variable. In the second models, we omit union density, the interaction of female labor force participation and current left cabinet, and strikes.[15] Our removal of union density may concern the reader, given its prominence in power resources theory (Hicks 1999; Korpi and Palme 2003). However, Huber and Stephens (2001a) make the same choice because of the high correlation between left cabinet and union density ($r = .61$). Because the two are causally related, it often is difficult to include both in the same model. These revised models perform better than the first, and the effects of the retained variables are relatively robust. The BIC$'$ statistic very strongly prefers the second decommodification model, positively prefers the second social welfare expenditures model, and strongly prefers the second social security transfers model.

In the third models, we add manufacturing and agricultural employment, wage coordination, and right cabinet.[16] Surprisingly, manufacturing and agricultural employment and wage coordination are not significant for any dependent variable.[17] Although corporatism is linked with the origins of the welfare state in earlier

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[15] Although the interaction of female labor force participation and current left cabinet has a t score of –1.4 in the first model for social welfare expenditures, it would be insignificant in any and all models that follow. Because female labor force participation is more straightforward, we retained it instead. We also considered measures of women's presence in parliament, but found that they were collinear with left cabinet.

[16] In analyses available upon request, we added each, one at a time, and the results were identical. We also experimented with the product of union density and wage coordination as well as a measure of corporatism and found that they were consistently insignificant.

[17] Like Iversen and Cusack, we estimated these models using OLS-PCSE with country dummies. In those models, manufacturing and agricultural employment does not significantly affect social welfare expenditures and social security transfers, but is significant for decommodification.

Table 1. OLS-PCSE Baseline Models of Three Welfare State Measures in Seventeen Developed Democracies, 1975–2001

	Decommodification			Social Welfare Expenditures			Social Security Transfers		
Left Cabinet	.167***	.177***	.120**	.182***	.170***	.118**	.102**	.081*	.058
	(4.55)	(4.89)	(3.46)	(4.58)	(4.81)	(2.87)	(2.82)	(2.22)	(1.81)
Christian Democrat Cabinet	.801***	.774***	.699***	.258	.236	.106	.402	.339	.399
	(6.74)	(6.58)	(5.52)	(1.55)	(1.42)	(.66)	(1.28)	(.93)	(1.34)
Union Density	.007	—	—	−.006	—	—	−.013	—	—
	(.49)			(−.36)			(−.74)		
Constitutional Structure	−.559***	−.580***	−.311*	−.406	−.386	−.209	−.051	.006	.110
	(−3.56)	(−3.78)	(−2.02)	(−1.87)	(−1.77)	(−1.02)	(−.26)	(.03)	(.61)
Female LFP	.077*	.078*	.097**	.035	.006	.011	−.061	−.047	−.054
	(2.43)	(2.52)	(3.15)	(.14)	(.17)	(.28)	(−1.50)	(−1.06)	(−1.27)
Female LFP × Left Party	.023	—	—	−.038	—	—	−.014	—	—
	(.91)			(−1.38)			(−.56)		
Voter Turnout	−.006	—	—	.003	—	—	−.007	—	—
	(−.32)			(.16)			(−.31)		
Elderly Population	.805***	.764***	.751***	.959***	.945***	.935***	.612***	.561**	.614***
	(4.87)	(4.60)	(4.59)	(5.80)	(5.40)	(5.44)	(3.89)	(3.22)	(4.04)
Strikes (×10⁻¹)	−.004	—	—	.02	—	—	.01	—	—
	(−.28)			(.77)			(.61)		
Authoritarian Legacy	−.261	−.230	−.129	.637	.624	1.011*	.982*	.811	1.019*
	(−.78)	(−.64)	(−.34)	(1.66)	(1.52)	(2.13)	(2.52)	(1.67)	(2.52)
GDP per Capita (×10⁻²)	.02	.02	.004	−.01	−.01	−.03	−.03*	−.04**	−.04**
	(1.80)	(1.70)	(.35)	(−.58)	(−.97)	(−1.91)	(−2.32)	(−3.17)	(−2.68)
Year	−.278***	−.267***	−.152*	.058	.097	.152	.090	.152	.140
	(−3.99)	(−3.96)	(−2.18)	(.58)	(.99)	(1.41)	(1.12)	(1.91)	(1.72)
Inflation	−.014	−.010	−.027	.070	.063	.055	.035	.038	.028
	(−.47)	(−.35)	(−.92)	(1.46)	(1.35)	(1.15)	(1.22)	(1.36)	(.94)
Unemployment	.157*	.158**	.066	.283**	.237**	.095	.137	.078	.080
	(2.52)	(2.76)	(.89)	(3.07)	(2.72)	(.97)	(1.88)	(1.17)	(.98)

(Continued on next page)

Table 1. *(Continued)*

	Decommodification		Social Welfare Expenditures			Social Security Transfers		
Military Spending	−.459	−.433	.317	.422	.371	.451*	.487*	.467*
	(−1.79)	(−1.74)	(1.31)	(1.68)	(1.42)	(2.05)	(2.17)	(2.20)
Manu/Agri Employment	—	−.016	—	—	−.117	—	—	−.020
		(−.27)			(−1.57)			(−.31)
Wage Coordination	—	.067	—	—	−.054	—	—	−.031
		(.91)			(−.63)			(−.42)
Right Cabinet	—	−.138***	—	—	−.101***	—	—	−.063*
		(−6.89)			(−3.32)			(−2.52)
Constant	11.600***	14.856***	3.371	4.400	12.689*	10.202**	10.951**	11.047*
	(3.77)	(3.84)	(.92)	(1.23)	(2.57)	(2.85)	(3.15)	(2.33)
R^2	.789	.800	.711	.697	.704	.532	.494	.539
BIC'	−603.313	−633.313	−371.101	−376.130	−367.522	−230.829	−221.871	−243.263
N	447	447	370	370	370	424	424	424

Note: The numbers in parentheses are t-scores. Models include a first-order serial autocorrelation correction. All independent variables are lagged one year. OLS-PSCE = ordinary least squares with panel-corrected standard errors; LFP = labor force participation; GDP = gross domestic product; Manu/Agri = manufacturing and agricultural; BIC' = Bayesian information criterion prime.

$* p < .05; ** p < .01; *** p < .001$ (two-tailed tests).

periods, it is insignificant in this latest period. Because these two have attracted so much attention, we retain them despite their insignificance. Importantly, right cabinet has a significant negative effect for all three dependent variables. This finding supports Allan and Scruggs' (2004) conclusion that right parties have triggered welfare state reductions in the most recent period. After including these three independent variables, some other variables (e.g., Christian democrat cabinet, constitutional structure, GDP per capita, unemployment, and military spending) become insignificant for at least one of the dependent variables.

Huber and Stephens claimed partisan differences were narrowing in recent years, and argued that the party variables might not be significant in this era of mature welfare states (also Pierson [2001]). Despite all the various findings, we find that left cabinet continues to have a positive effect and right cabinet has a negative effect for all three dependent variables. In the globalization era, the power constellations/power resources approach continues to be useful since partisan differences remain (Allan and Scruggs 2004).[18] While union density and wage coordination are insignificant, political parties, plausibly class actors, continue to shape welfare states in the globalization era. Our results are consistent with recent challenges to the new politics literature about the declining impact of parties and classes (Allan and Scruggs 2004; Korpi and Palme 2003). Interestingly, such challenges have contended that it is necessary to use alternative welfare state measures to reach the conclusion that left parties still matter. While our finding of a significant effect of left cabinet does apply to decommodification, we also find that parties still matter for the

established social welfare expenditures and social security transfers measures. The BIC′ statistic very strongly prefers the third models for decommodification and social security transfers, and strongly prefers the third model for social welfare expenditures.

GLOBALIZATION RESULTS

Before discussing the effects of globalization, we present the trends in globalization from 1975 to 2001. Figure 1 shows that, in fact, globalization dramatically increased. The dark solid line shows the average total globalization (investment openness + trade openness) over the period. Total globalization more than doubled, rising from 58.3 percent of GDP in 1975 to 141.1 percent in 2000, before falling to 123.8 percent in 2001. Despite fluctuation, the long-term increase was secular. On average, affluent democracies increasingly engaged in international economic exchange. The dashed line shows the average net globalization (net trade + net investment). Net globalization exhibits much fluctuation without a clear trend. In the early years and in 1998, these countries were negative net globalizers on average. From 1982 to 1997 and 1999 to 2001, however, our sample exported more and received more investment than it imported and lost investment. The addition of Japan in 1978 and Switzerland in 1984 did not affect the patterns. Overall, globalization increased substantially between 1975 and 2001, but involved less consistent patterns of net inward and outward flows.

Displaying the trends in our three dependent variables is also instructive. Figure 2 shows their averages from 1975 to 2001. During this period of substantially increased globalization, two of the three were remarkably stable. At the beginning of the period, the welfare state was institutionalized as the average for social welfare expenditures was 19.7 percent of GDP in 1980 and the average for social security transfers was 13.7 percent of GDP in 1975. Both of these did not really peak until 1993 (25.2 and 16.6 percent), and neither had declined substantially by the end of the period (23.0 and 14.7 percent). Moreover, both measures actually were higher at the end of the period than at the beginning (23.0 vs 19.7 and 14.7 vs 13.7 percent). There was a noticeable peak in decommodification at 28.5 percent in 1985, and some

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[18] The results are most supportive of the power constellations approach with Huber and Stephens' cumulative cabinet measures. In analyses available upon request, we substituted the cumulative left and right cabinet variables with current cabinet variables. The current left cabinet variable fails to reach significance in all models, and the current right cabinet variable reaches significance only for social welfare expenditures. Another problem with the left party measures is that the United States and Canada are zero for every year because their "left" parties (e.g., U.S. Democrats) are coded as centrist.
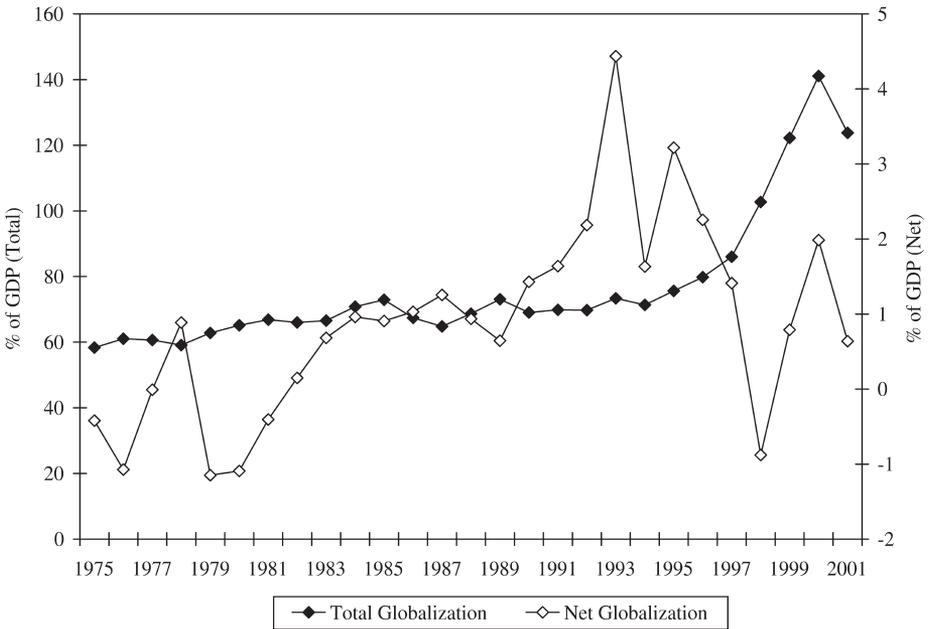
Figure 1. Means of Total and Net Globalization in 17 Affluent Democracies, 1975–2001

decrease afterward. However, like the other two, the values at the end of the period were higher than at the beginning (27.7 vs 25.9 percent), and

this variable is always within the range of 26.0 to 28.5 percent. Adding Japan (1978) and Switzerland (1984) was not very consequential
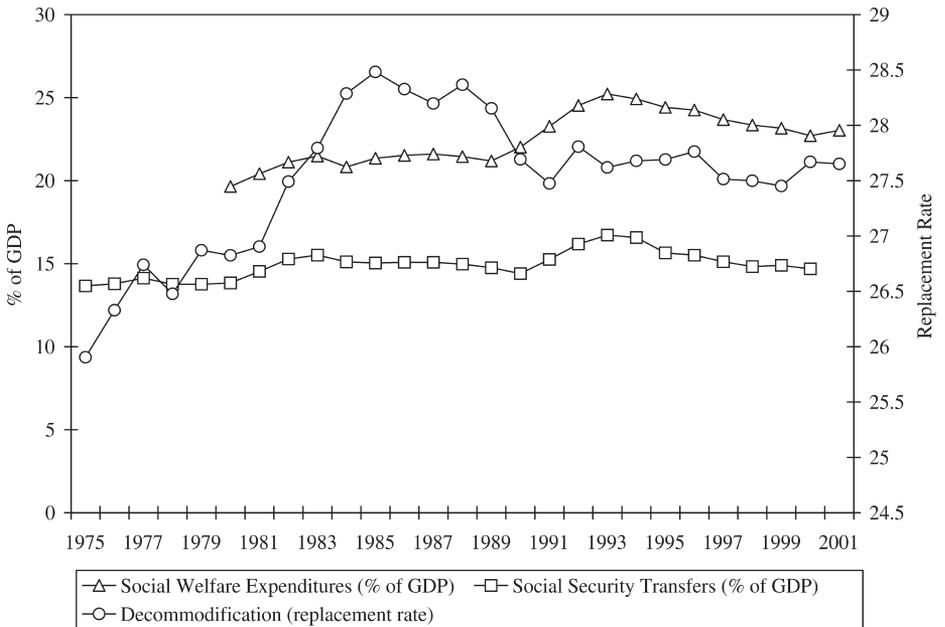

Figure 2. Means of Three Welfare State Measures in 17 Affluent Democracies, 1975–2001

for the averages. Although decommodification has declined since the mid-1980s, the overall stability in these measures problematizes the language of "crisis" in the literature. Given that this era combines increasing globalization with welfare state stability, the descriptive evidence does not clearly support claims about globalization's positive or negative effects on the welfare state.[19]

We examine the linear effects of globalization on the welfare state in Table S3 (*ASR* Online Supplement). We model all three dependent variables as functions of the third model in Table 1 and each globalization indicator, including one globalization indicator at a time in separate models. Following our discussion, we differentiate globalization indicators into advantage, openness, and threat. For comparison, we also present the fit statistics from the third model in Table 1. Coefficients for the baseline variables are available upon request. Because these models serve to help us specify our final models below, we briefly summarize the main findings.

On the whole, there is only limited evidence for either linear globalization theory. The data show that 12 of the 17 measures are insignificant for decommodification, 15 of 17 are insignificant for social welfare expenditures, and 11 of 17 are insignificant for social security transfers (Table S3, *ASR* Online Supplement). In fact, 6 of 17 are insignificant for all dependent variables. What evidence exists defies a simple interpretation. Both positive and negative effects appear, and they do not closely correspond with extant theory's conceptions of globalization as advantage, openness, or threat. Many of the signs of the

insignificant coefficients seem inconsistent with any of the theories of globalization's effects. Many advantage measures are negative; some threat measures are positive; and openness measures are positive and negative. The significant globalization indicators vary across dependent variables.

Exports, net trade, net globalization, trade openness, and total globalization have significant positive effects on decommodification. The *t* scores and BIC′ suggest that the most important indicators for decommodification are net trade and trade openness. Net trade has a significant negative effect on social welfare expenditures, and net migration has a significant positive effect. The BIC′ statistic very strongly prefers the net trade model and strongly prefers the net migration model. Inward FDI, FDI openness, total globalization, and outward FDI all have significant negative effects on social security transfers. Both the capital and current accounts liberalization indices have significant positive effects. Because some of these measures are redundant and based on *t* scores and BIC′, we conclude that FDI openness and the capital accounts liberalization index were the most important indicators of globalization for social security transfers.

Thus, some globalization indicators have significant effects, but globalization does not have a consistent linear relationship with the welfare state. Examining many different globalization indicators allows us to detect findings that might be overlooked with general measures of economic openness. Without considering many different indicators, it is possible to have an incomplete or even mistaken understanding of the relationship between globalization and the welfare state.

If the evidence that globalization has linear effects is precise and limited, one possible explanation is that the effects of globalization may be nonlinear. If the relationship between the welfare state and globalization is curvilinear, the globalization effect would be masked by the (mis-) specification of the linear model. As we explained above, a curvilinear relationship could provide evidence of welfare state convergence.

Before examining such curvilinear effects, we describe the patterns in welfare state variation across affluent democracies. Figure 3 displays the coefficients of variation for the three welfare state measures from 1975 to 2001. During

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[19] Two reasonable qualifications to our conclusion of welfare state stability should be acknowledged. First, we recognize that some of the stability we observe in social welfare expenditures and social security transfers is undoubtedly attributable to rising unemployment and elderly populations. Because these groups are entitled to welfare benefits, the relatively stable level of expenditures might mask a decline relative to need or relative to what we should have seen. Accordingly, our models include controls for these groups. Second, because reforms often are phased in slowly, observed retrenchment in decommodification might manifest in the spending measures several years down the road.
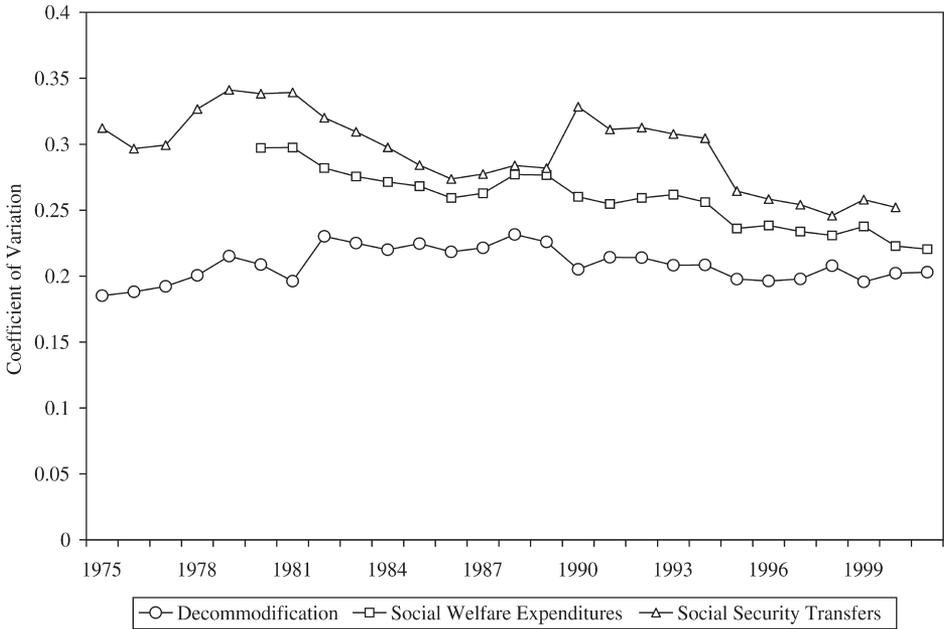
Figure 3. Coefficients of Variation in Three Welfare State Measures across 17 Affluent Democracies, 1975–2001

the globalization era, the variation in decommodification was quite stable, with a slight upward trend from .19 to a peak of .23 in 1988, then down to .20 in 2001. Social welfare expenditures converged fairly consistently and sharply from .30 in 1980 to .22 in 2001. Social security transfers fluctuated a great deal, diverging from .31 in 1975 to .34 in 1979 and 1981, then converging to .27 in 1986 and diverging again to .33 in 1990, and finally sharply converging to about .25 from 1996 to 2000. Some of these patterns should be read with caution because we add Japan and Switzerland to the sample in 1978 and 1984. Nevertheless, modest convergence in these welfare state measures did occur in recent years.

Table S4 (see *ASR* Online Supplement) examines globalization's possible curvilinear effects—again, including one globalization indicator (a linear term and a squared term) at a time in separate models.[20] Again, we control for the

variables in the third models in Table 1, although the coefficients are not shown. For each dependent variable, both main and squared terms are insignificant for 11 of the 17 globalization indicators, although differences exist in which indicators are insignificant across dependent variables. For seven globalization indicators, both the main and squared terms are insignificant for all three dependent variables. Trade openness is insignificant in both terms for all three dependent variables, which contrasts with recent research that found curvilinear effects (Garrett 1998a; Hicks 1999).

For decommodification, no globalization indicator has a curvilinear effect with both the main and squared terms significant. Consistent with the results in Table S3 (*ASR* Online Supplement), exports, net trade, net globalization, and total globalization have significant positive effects on decommodification in the main term. Inward FDI and FDI openness have curvilinear effects on social welfare expenditures. However, both of these are negative in the main term and positive in the squared term – opposite from convergence predictions. The *t* scores and the BIC′ statistic suggest that FDI openness is the more salient indicator. Consistent with Table S3, net trade and net

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[20] A common concern with the quadratic specification is that collinearity between a variable and its square can inflate the standard errors. In 42 of 51 models, Wald joint significance tests are not significant.

migration have significant effects in the main term for social welfare expenditures. For social security transfers, inward FDI, FDI openness, and outward FDI have curvilinear effects (– and +). Because FDI openness encompasses inward and outward FDI, it reasonably captures these globalization effects. Net migration has a nearly significant positive effect in the main term and a significant negative effect in the squared term.

FINAL MODELS

In Table 2, we present final models for the three dependent variables. Instead of mechanically incorporating all significant coefficients, we selectively include the most important globalization variables for each dependent variable. In analyses available upon request, we considered the collinearity and redundancy among these and other variables. This selection represents the optimal specification of globalization's effects.

Table 2 also includes standardized coefficients. For each dependent variable, we first present the full model and then present a model including only the globalization variables and the mostly time invariant variables, constitutional structure and authoritarian legacy. Thus, the second model removes all variables that could even remotely mediate the influence of globalization on the welfare state. In turn, the second models estimate the potential effect of globalization in a reduced-form model.

The first model for decommodification shows that net trade and trade openness continue to have significant positive effects. Hence, measures of globalization advantage and globalization openness both cause welfare state expansion. There is no evidence that globalization causes a decline of decommodification. The baseline controls are generally consistent with the third model in Table 1. The BIC′ statistic very strongly prefers the first decom-

Table 2a. OLS-PCSE Models of Three Welfare State Measures on Globalization and Baseline Variables in Seventeen Developed Democracies, 1975–2001

| | Decommodification | | | | | |
| | Model 1 | | | Model 2 | | |
	b	β	t	b	β	t
Net Trade	.147***	.098	(4.45)	.151***	.101	(4.35)
Trade Openness	.020*	.111	(2.34)	.014	.076	(1.59)
Left Cabinet	.103**	.202	(2.97)	—		
Christian Democrat Cabinet	.622***	.243	(5.11)	—		
Constitutional Structure	−.204	−.076	(−1.35)	−1.003***	−.371	(−5.15)
Female LFP	.119***	.233	(3.68)	—		
Elderly Population	.749***	.233	(4.58)	—		
Authoritarian Legacy	.054	.008	(.14)	.351	.052	(.81)
GDP per Capita ($\times 10^{-2}$)	−.001	−.007	(−.09)	—		
Year	−.166*	−.228	(−2.35)	—		
Inflation	−.020	−.016	(−.71)	—		
Unemployment ($\times 10^{-2}$)	.003	.000	(.00)	—		
Military Spending	−.187	−.039	(−.78)	—		
Manu/Agri Employment	−.005	−.007	(−.09)	—		
Wage Coordination	.013	.003	(.19)	—		
Right Cabinet	−.118***	−.246	(−5.33)	—		
Constant	12.234**		(3.00)	28.250***		(18.96)
R^2	.811			.719		
BIC′	−646.120			−542.535		

Note: Models include first-order serial autocorrelation correction. All independent variables are lagged one year. OLS-PSCE = ordinary least squares with panel-corrected standard errors; b = unstandardized coefficient; β = standardized (or semistandardized) coefficient; LFP = labor force participation; GDP = gross domestic product; Manu/Agri = manufacturing and agricultural; BIC′ = Bayesian information criterion prime.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

Table 2b. OLS-PCSE Models of Three Welfare State Measures on Globalization and Baseline Variables in Seventeen Developed Democracies, 1975–2001

| | Social Welfare Expenditures | | | | | |
| | Model 1 | | | Model 2 | | |
	b	β	t	b	β	t
Net Trade	−.112**	−.070	(−2.73)	.010	.006	(.22)
FDI Openness	−.022	−.046	(−1.11)	−.017	−.036	(−.72)
FDI Openness^2 ($\times 10^{-1}$)	.001	.032	(1.16)	.001	.037	(1.21)
Net Migration	.089*	.046	(2.24)	.049	.025	(1.12)
Left Cabinet	.131***	.255	(4.37)	—		
Christian Democrat Cabinet	.287*	.117	(2.06)	—		
Constitutional Structure	−.191	−.068	(−1.13)	−1.053***	−.377	(−5.37)
Female LFP	.025	.045	(.72)	—		
Elderly Population	1.097***	.393	(7.61)	—		
Authoritarian Legacy	.796*	.114	(2.09)	1.333***	.192	(3.55)
GDP per Capita ($\times 10^{-2}$)	−.02	−.107	(−1.14)	—		
Year	.071	.077	(.82)	—		
Inflation	.023	.015	(.48)	—		
Unemployment ($\times 10^{-2}$)	27.8**	.171	(2.60)	—		
Military Spending	−.081	−.016	(−.37)	—		
Manu/Agri Employment	−.092	−.102	(−1.31)	—		
Wage Coordination	−.038	−.009	(−.38)	—		
Right Cabinet	−.106***	−.220	(−4.86)	—		
Constant	7.761		(1.51)	22.282***		(12.94)
R^2	.747			.573		
BIC′	−401.780			−279.378		

Note: Models include first-order serial autocorrelation correction. All independent variables are lagged one year. OLS-PSCE = ordinary least squares with panel-corrected standard errors; b = unstandardized coefficient; β = standardized (or semistandardized) coefficient; FDI = foreign direct investment; LFP = labor force participation; GDP = gross domestic product; Manu/Agri = manufacturing and agricultural; BIC′ = Bayesian information criterion prime.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

modification model over any of the models in Table 1.

The first social welfare expenditures model shows a significant negative effect for net trade and a significant positive effect for net migration. While FDI openness had a significant curvilinear relationship (− and +) in Table S4, it is only nearly significant after net trade and net migration are included in the model. One measure of globalization advantage, net trade, generates a reduction in social welfare expenditures, while one measure of globalization threat, net migration, results in an increase in social welfare expenditures. Most baseline controls are consistent with the third model in Table 1, but there are three exceptions. Christian democrat cabinet and unemployment are now significantly positive, and GDP per capita is no longer significantly negative. The BIC′ statistic very strongly prefers this first social welfare expenditures model over any of the models in Table 1.

The first social security transfers model includes a significant negative effect for FDI openness and a significant positive effect for its square, a significant positive effect for capital accounts liberalization and a significant negative effect for net migration squared (with a nearly significant positive effect for net migration). One measure of globalization openness, FDI openness, has a curvilinear effect, causing a decline at initial lower levels and an increase at subsequent higher levels. Another measure of openness, capital accounts liberalization, causes an increase in social security transfers. One measure of globalization threat, net migration, initially at lower levels suggests an expansion of social security transfers, and subsequently at

Table 2c. OLS-PCSE Models of Three Welfare State Measures on Globalization and Baseline Variables in Seventeen Developed Democracies, 1975–2001

	Social Security Transfers					
	Model 1			Model 2		
	b	β	t	b	β	t
FDI Openness	−.077*	−.112	(−2.45)	−.088*	−.128	(−2.50)
FDI Openness^2 ($\times 10^{-1}$)	.01*	.071	(2.18)	.01*	.084	(2.31)
CAL Index	.636**	.098	(2.63)	.834***	.131	(3.32)
Net Migration	.062	.041	(1.59)	.023	.015	(.56)
Net Migration^2	−.005*	−.030	(−2.03)	−.003	−.021	(−1.32)
Left Cabinet	.067*	.167	(2.13)	—		
Christian Democrat Cabinet	.353	.176	(1.20)	—		
Constitutional Structure	−.019	−.009	(−.11)	−.647***	−.302	(−3.41)
Female LFP	−.060	−.152	(−1.43)	—		
Elderly Population	.526***	.263	(3.45)	—		
Authoritarian Legacy	1.013**	.193	(2.59)	1.114**	.212	(2.88)
GDP per Capita ($\times 10^{-2}$)	−.04**	−.331	(−2.92)	—		
Year	.148	.250	(1.86)	—		
Inflation	.022	.023	(.79)	—		
Unemployment ($\times 10^{-2}$)	3.1	.025	(.38)	—		
Military Spending	.460*	.125	(2.18)	—		
Manu/Agri Employment	−.040	−.066	(−.64)	—		
Wage Coordination	−.042	−.014	(−.58)	—		
Right Cabinet	−.060*	−.161	(−2.38)	—		
Constant	12.527**		(2.64)	11.689***		(7.25)
R^2	.559			.457		
BIC′	−231.708			−216.644		

Note: Models include first-order serial autocorrelation correction. All independent variables are lagged one year. OLS-PSCE = ordinary least squares with panel-corrected standard errors; b = unstandardized coefficient; β = standardized (or semistandardized) coefficient; FDI = foreign direct investment; CAL = capital accounts liberalization; LFP = labor force participation; GDP = gross domestic product; Manu/Agri = manufacturing and agricultural; BIC′ = Bayesian information criterion prime.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

higher levels causes a decline. The baseline controls are generally consistent with the third model in Table 1. Despite the addition of the significant globalization coefficients, the BIC′ statistic very strongly prefers the third model in Table 1 over the first social security transfers model in Table 2.

Overall, the globalization results in Table 2 provide some evidence for each of the theories of globalization's effects: expansion, reduction, and curvilinear effects. Net trade, a measure of advantage, causes an expansion of decommodification, but causes a decline in social welfare expenditures. Two measures of openness cause an expansion: trade openness for decommodification and capital accounts liberalization for social security transfers. Another measure of openness, FDI openness, has a curvilinear rela-

tionship with social security transfers (– and +). Finally, net migration, a measure of threat, causes an expansion of social welfare expenditures, but its square causes a reduction in social security transfers. On the one hand, globalization appears to have positive, negative, *and* curvilinear effects. On the other hand, the advantage, openness, and threat measures do not appear to have effects consistent with the three theories. Also, because these theories contrast with each other (and evidence for one should contradict the others), it is difficult to claim that any theory is truly supported. Nevertheless, because globalization does affect the welfare state, these results contrast with previous claims that globalization is insignificant.

The globalization effects are statistically significant, but substantively small. For decom-

modification, both globalization standardized coefficients are about .1 in absolute value. Summing their absolute values, the cumulative effect is comparable with the effect of left cabinet and smaller than the effect of Christian democrat cabinet, female labor force participation, the elderly population, year, and right cabinet. Among the significant predictors of decommodification, net trade and trade openness have by far the smallest effects. For social welfare expenditures, both significant globalization standardized coefficients fail to exceed an absolute value of .07. The summed absolute values of the standardized coefficients of these indicators is comparable with Christian Democrat cabinet and authoritarian legacy, but smaller than left cabinet, the elderly population, unemployment, and right cabinet. Net trade and net migration have the smallest standardized coefficients of the significant variables. Globalization has its largest effect on social security transfers because four indicators are significant, but none of the four significant effects has a standardized coefficient larger than .11. Also, none of these individual effects is larger than any of the significant baseline variables. Despite globalization's significance, other causes have the most influence on decommodification, social welfare expenditures, and social security transfers.

Table 2 provides evidence for and against several welfare state theories. Consistent with the new politics accounts, the elderly population is significantly positive for all three dependent variables and has the largest effect for social welfare expenditures and one of the larger effects for decommodification and social security transfers. Consistent with the politics-as-usual (partisan and class politics) account, female labor force participation has a significant positive effect on decommodification, and authoritarian legacy has a significant positive effect on social welfare expenditures and social security transfers. Partisan differences continue to matter because left cabinet has a significant positive effect and right cabinet has a significant negative effect for all three dependent variables, and Christian democrat cabinet has a significant positive effect for decommodification and social welfare expenditures. Manufacturing and agricultural employment is not significant, which does not support Iversen and Cusack's (2000) claim that deindustrialization is more important

than globalization in explaining welfare state variation.[21] There are some surprising results that do not clearly support prior research (i.e., GDP per capita is negative and military spending is positive for social security transfers). These suggest the continuing importance of flexibility and caution in theorizing the welfare state, and the reality that some variables have different effects in this more recent historical period. Ultimately, the results in Table 2 confirm the need for synthetic welfare state models that incorporate causal variables from multiple theories.

SENSITIVITY ANALYSES

One concern with the first models in Table 2 is that the controls might mediate the effects of globalization. We may be obscuring globalization's effects by including certain controls in the same models. To address this concern, the second models display the results after removal of all time-variant independent variables.[22] We retain constitutional structure and authoritarian legacy because those two are mostly time invariant and unlikely to mediate globalization's effects. These reduced-form models give the globalization effects a better chance to reach significance. Importantly, however, these reduced-form models do not provide evidence of greater

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[21] In OLS-PCSE models with country dummies, this variable is significantly negative for decommodification and social welfare expenditures, but is not significant for Iversen and Cusack's main dependent variable, social security transfers. Thus, even these results are not strictly consistent because Iversen and Cusack concluded that deindustrialization significantly affected social security transfers. Even in these models, globalization's significance is robust, although the standardized coefficients for globalization are larger than for deindustrialization only in the social security transfers model.

[22] We also estimated models that included only the globalization measures and no controls. In all but 8 of the 51 models, the globalization coefficient failed to reach significance at the .10 level. The significant effects include positive effects of exports and net trade on decommodification; negative effects of outward FDI, inward FDI, FDI openness, and total globalization on social security transfers; and positive effects of net globalization and capital accounts liberalization on social security transfers.

globalization effects. The effects of the globalization indicators are similar in size and significance. Though a few indicators have slightly larger and more significant effects, most globalization variables actually have smaller coefficients and are less significant. Hence, these second models provide no evidence that globalization's effects operate indirectly through the time-varying baseline variables. The globalization effects are quite robust to alternative specifications.[23]

In Tables 3, 4, and 5, we decompose the full sample into European and non-European countries and into liberal/uncoordinated and non-liberal/coordinated regimes, coding Australia, Canada, Ireland, the United Kingdom, and the United States as liberal/uncoordinated. Previous studies contend that globalization is most important to the welfare state in either European countries or liberal regimes. Given the smaller number of cases and varying descriptive statistics across subsamples (complicating comparisons of coefficients), these results should be read with caution. Several controls occasionally have significant effects in different and unexpected directions. This suggests the instability of coefficients and effects upon decomposing the sample.

These results provide only limited evidence that globalization has different consequences across these subsamples. Although significance levels fluctuate a bit, none of the globalization effects is significant in a different direction, and there is no consistent divergence across subsamples. For decommodification, net trade has significant positive effects for European and nonliberal countries, but is insignificant for non-European and liberal countries. Trade openness is insignificant for European, non-European, and liberal countries, but is significantly positive for nonliberal countries. Thus, there is modest evidence that globalization increases decommodification in the more generous European and nonliberal welfare states. For social welfare expenditures, fewer differences appear. Net trade has significant negative effects across all four subsamples, while FDI openness has significant negative effects and its square has significant positive effects for two of the four subsamples and near significant effects in a third (nonliberal is the exception). Net migration has significant positive effects only in European and nonliberal countries, however. For social security transfers, FDI openness has significant negative effects and its square has significant positive effects for European *and* liberal countries, but both are insignificant for non-European *and* nonliberal countries. By contrast, net migration (+), and its square (−) are significant for European and nonliberal countries and insignificant for the other two. Also, capital accounts liberalization (+) is significant for nonliberal countries and nearly significant for European countries and insignificant for the other two. Ultimately, the effects of some globalization indicators appear to be sensitive to sample decomposition. Some evidence suggests that globalization is more consequential in the generous European and nonliberal welfare states. But, there also is evidence that globalization matters across all subsamples and occasionally has effects in odd combinations of European and liberal countries. Thus, the evidence does not support claims that globalization consistently matters most (or only) in liberal regimes or Europe.

DISCUSSION

One of the most contentious issues in the welfare state literature involves the potential consequences of economic globalization. Our study provides a comprehensive examination of the consequences of many facets of globalization for several dimensions of the welfare state. On the basis of this comprehensive approach, we contribute novel evidence for and against the various theories of globalization's effects.

First, we provide evidence that some globalization indicators cause an expansion of the

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[23] We used the Model 1 specifications to predict four alternative dependent variables: government revenue and government expenditures as a percent of GDP, public health spending as a percent of total health spending, and public employment as a percent of civilian employment. Globalization's effects were mostly insignificant, with a few exceptions. To test whether government expenditures mediate the globalization effect, we added it to the Model 1 specifications, and globalization's effects were generally robust. We tested whether the causal direction runs from the welfare state to globalization. In 36 of 51 models we estimated, the effect of the welfare state on globalization was not significant at the .10 level.

Table 3. Decommodification: Sensitivity Analyses Decomposing Sample for Final OLS-PCSE Models

	Decommodification			
	European	Non-European	Liberal	Non-Liberal
Net Trade	.130***	.016	.017	.124***
	(3.81)	(.40)	(.40)	(3.33)
Trade Openness	.01	.013	.009	.017*
	(1.32)	(.85)	(.47)	(2.18)
Constant	23.328***	41.158***	53.918***	10.362*
	(4.15)	(8.20)	(8.04)	(2.09)
R^2	.807	.978	.899	.860
BIC′	−469.433	−329.995	−235.526	−521.094
N	342	105	135	312

Note: Each cell contains the unstandardized coefficient and the t-scores in parentheses. The models include a first-order serial autocorrelation correction. All independent variables are lagged one year. Though not shown, models include the control variables featured in Tables 1 and 2, except Christian Democrat Cabinet is dropped in the non-European and Liberal countries because there is no variation for those countries. Australia, Canada, Ireland, the U.K. and the U.S. are coded as liberal. OLS-PSCE = ordinary least squares with panel-corrected standard errors; BIC′ = Bayesian information criterion prime.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

Table 4. Social Welfare Expenditure: Sensitivity Analyses Decomposing Sample for Final OLS-PCSE Models

	Social Welfare Expenditure			
	European	Non-European	Liberal	Non-Liberal
Net Trade	−.121**	−.218***	−.078*	−.190**
	(−2.81)	(−3.69)	(−2.08)	(−3.21)
FDI Openness	−.032	−.669***	−.389***	−.013
	(−1.66)	(−5.94)	(−4.61)	(−.61)
FDI Openness^2 ($\times 10^{-2}$)	.01	3.1***	1.1***	.004
	(1.70)	(4.60)	(3.77)	(0.47)
Net Migration	.105*	.02	.074	.130*
	(2.27)	(.37)	(1.55)	(2.37)
Constant	21.866***	20.762	6.513	23.783***
	(3.68)	(1.78)	(.83)	(3.50)
R^2	.727	.943	.885	.763
BIC′	−264.768	−173.690	−157.525	−274.448
N	282	88	110	260

Note: Each cell contains the unstandardized coefficient and the t-scores in parentheses. The models include a first-order serial autocorrelation correction. All independent variables are lagged one year. Though not shown, models include the control variables featured in Tables 1 and 2, except Christian Democrat Cabinet is dropped in the non-European and Liberal countries because there is no variation for those countries. Australia, Canada, Ireland, the U.K. and the U.S. are coded as liberal. OLS-PSCE = ordinary least squares with panel-corrected standard errors; FDI = foreign direct investment; BIC′ = Bayesian information criterion prime.
* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

welfare state. Net trade and trade openness are associated with an increase in decommodification; net migration is associated with an increase in social welfare expenditures; and capital accounts liberalization is associated with an increase in social security transfers. Countries that export more than they import and/or engage in a great deal of trade have higher levels of decommodification. Countries that experience a net inflow of migrants have greater social welfare expenditures. Countries that are more legally open to international economic transactions tend to have more generous social security transfers. Perhaps the

Table 5. Social Security Transfers: Sensitivity Analyses Decomposing Sample for Final OLS-PCSE Models

	Social Security Transfers			
	European	Non-European	Liberal	Non-Liberal
FDI Openness	−.085*	−.152	−.430***	−.052
	(−2.50)	(−.60)	(−5.18)	(−1.38)
FDI Openness^2 ($\times 10^{-1}$)	.01*	−.52	.13***	.003
	(2.28)	(−1.24)	(3.81)	(1.02)
CAL Index	.542	.269	.282	1.449***
	(1.92)	(.77)	(1.15)	(4.39)
Net Migration	.109**	−.131	.001	.215***
	(2.29)	(−1.12)	(.03)	(3.33)
Net Migration^2	−.006**	.007	−.003	−.011**
	(−2.490)	(.69)	(−.95)	(−3.11)
Constant	21.157**	24.143**	6.005	26.771***
	(3.17)	(3.26)	(1.08)	(4.71)
R^2	.569	.898	.887	.633
BIC′	−165.917	−137.272	−185.969	−191.733
N	328	96	125	299

Note: Each cell contains the unstandardized coefficient and the t-scores in parentheses. The models include a first-order serial autocorrelation correction. All independent variables are lagged one year. Though not shown, models include the control variables featured in Tables 1 and 2, except Christian Democrat Cabinet is dropped in the non-European and Liberal countries because there is no variation for those countries. Australia, Canada, Ireland, the U.K. and the U.S. are coded as liberal. OLS-PSCE = ordinary least squares with panel-corrected standard errors; FDI = foreign direct investment; CAL = capital accounts liberalization; BIC′ = Bayesian information criterion prime.
* $p < .10$; ** $p < .05$; *** $p < .01$ (two-tailed test).

best examples of this pattern are the Scandinavian social democracies of Denmark, Norway, and Sweden. These countries have always maintained highly globalized economies, and have institutionalized generous decommodification. Moreover, these countries have increased their decommodification as they became even more internationally open. One reading of these findings validates Katzenstein's (1985) view of small, egalitarian welfare states that are very integrated into the global economy.

Second, we provide limited evidence that globalization causes welfare state reduction. However, we are skeptical that globalization generally causes a welfare state crisis, and it is unlikely that the language of crisis is the best way to frame recent welfare state trends. After all, the welfare state measures have been generally stable during this era of remarkably increased globalization. Nevertheless, net trade significantly reduces social welfare expenditures. This effect is complicated because net trade significantly increases decommodification. Nevertheless, because

net trade has risen over the period, our study provides evidence that globalization may contribute to modest welfare state retrenchment. An interesting case of this pattern is Ireland, which since 1985 has increased its net trade and reduced both its social welfare expenditures and social security transfers (partly due to an expanding GDP, which is the denominator of these dependent variables) while at the same time raising decommodification. The Irish case nicely illustrates net trade's contradictory effects of globalization.[24] Globalization probably is not responsible for massive retrenchment or crisis because the effects are quite

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[24] More research on the contrasting effects of net trade, particularly in the Irish case, is certainly warranted. Irish GDP may be inflated by the high level of repatriated profits by multinational companies. Irish gross national product (GNP) might be a more precise denominator for the dependent variables. Unfortunately, social welfare expenditures and social security transfers data are made available by the OECD only as percentages of GDP.

small, and because there is at least as much evidence that globalization causes an expansion of the welfare state.

Third, our study provides some evidence that globalization has curvilinear effects. However, it is difficult to interpret these results as supporting the view that globalization triggers welfare state convergence. FDI openness has a significant negative effect in the main term and a significant positive effect in the squared term for social security transfers. A few other variables show similar effects—FDI openness for social welfare expenditures and net migration for social security transfers—although one or both terms are only nearly significant. These findings suggest that at least one indicator of globalization initially causes a reduction in social security transfers at low levels, a declining negative effect at medium levels, and subsequently an increase at higher levels. For instance, the coefficient from the first social security transfers model in Table 2 indicates that, over the range of most of the data (FDI openness of 0–15 percent of GDP), the effect is negative, and becomes positive when FDI openness reaches the high level of 43.5 percent of GDP. Two cases of this pattern are Ireland and the Netherlands. In both cases, increased FDI openness at first caused a large decrease in social security transfers, but this effect weakened in the 1990s as FDI openness reached higher levels. At the same time, our findings contradict recent studies showing that trade and investment openness have curvilinear (positive and negative) effects on social welfare expenditures (Garrett 1998a; Hicks 1999). Still, the descriptive patterns show that during this era of increased globalization, there has been a modest convergence of the welfare state.

Fourth, given globalization's significant effects, it seems premature to dismiss globalization's influence. Unlike the many skeptics, we find that globalization does matter. But because most globalization indicators do not significantly affect the welfare state, our study illustrates the necessity of scrutinizing many different facets of globalization. Relying on previously established summary measures such as trade openness may lead to an incomplete or inaccurate view of how globalization affects the welfare state. One of the reasons many may have dismissed globalization is that they failed to consider all of the different indicators and

measurements of globalization. Nevertheless, our conclusion that globalization has relatively small effects—the largest standardized coefficient is .13—suggests that other welfare state theories probably are more useful. Moreover, the reader should keep in mind that the vast majority of globalization indicators do not significantly influence the welfare state. To find globalization effects, one needs to dig deeply into our set of potential indicators. Inconsistent with the claims of previous scholars, our study provides only limited support for the conclusion that globalization's effects are systematically different across groups of countries or important only in European or liberal/uncoordinated countries.

Our study provides evidence for each of the theories concerning globalization's consequences for the welfare state: positive, negative, curvilinear, and insignificant. Globalization does not have one overall effect on the welfare state. Different facets of globalization have different effects, in different directions. Different indicators may have contrasting effects because globalization is a multifaceted phenomenon that actually may have contradictory or offsetting consequences in its various dimensions (Guillén 2001). Thus, when scholars argue that globalization influences the welfare state, it is essential to specify which aspects of globalization have which effects. Simply put, distinct globalization indicators appear to have distinct effects for the welfare state.

Our ultimate conclusion is that strong claims about globalization are unwarranted. In recent years, the welfare state literature has been filled with a plethora of bold assertions about globalization. Globalization may exert a very modest influence on policymakers and welfare states. But policymakers and welfare states are and always have been influenced by a diverse mix of pressures. The aging of the population, for example, exerts far greater pressure than globalization. Moreover, economic or demographic pressures are always mediated and channeled by domestic political actors, and how or if they choose to address those pressures is always a political process. For instance, in our models, the standardized coefficients for the strength of right parties are always larger than those for globalization. Given that it has such small effects, globalization does not necessarily force a welfare state to expand, retrench, or converge.

At most, globalization should be considered a small factor shaping welfare states.

In addition to scrutinizing globalization, our study contributes to broader welfare state debates. As analysts of earlier periods recognized (Hicks 1999; Huber and Stephens 2001a), welfare state models warrant revision in this era of heightened globalization. Consistent with the new politics account, the size of the elderly population has substantial influence on welfare state variation. At the same time, consistent with the politics-as-usual view, we find that class politics continues to exert pressure on welfare states. Unlike Huber and Stephens (2000, 2001a) and Pierson (1994, 1996), we conclude that partisan differences remain significant in the globalization era. Both left and right cabinet influence all three measures of the welfare state (Allan and Scruggs 2004; Kwon and Pontusson 2005). Our results do not support Iversen and Cusack's (2000) conclusion that deindustrialization is more important than globalization in explaining the welfare state. Ultimately, our study provides evidence for several welfare state theories. Synthetic, multicausal models remain the best way to explain the welfare state.

This study suggests the need for future research in at least two directions. First, it may be worthwhile to analyze the effects of globalization on a more broadly conceptualized welfare state, including "private" social benefits (Hacker 2002; Seeleib-Kaiser 2001). Because workers and citizens normally combine compensation, fringe benefits, and private investments with a mix of taxes and welfare transfers, it seems reasonable to explore how globalization affects the entire spectrum of public and private benefits.

Second, case studies continue to provide another valuable direction. Scholars can enhance the understanding of globalization by analyzing the local politics within individual welfare states. Such case studies might facilitate the study of other aspects (i.e., political, legal, and cultural) of globalization and the interconnections between domestic politics and globalization. Blyth (2002), for example, demonstrates that Swedish policymakers socially constructed globalization and the need to be internationally competitive as inevitable forces that necessitate welfare state retrenchment and privatization. If it is indeed domestic political actors that primarily matter, studies should examine how these actors filter globalization pressures and make globalization claims, which is probably best done with case studies or small-n comparisons paying special attention to political discourse. Even though "actual" globalization has modest effects, it still may operate as a socially constructed political tool facilitating welfare state change (Cox 2001; Schmidt 2002; Seeleib-Kaiser 2001).

In summary, our study provides new evidence on the relationship between globalization and the welfare state in the globalization era. Globalization does not have one overall effect on the welfare state, and what effects it has are most certainly relatively small. Our study suggests that we should be skeptical of bold claims about globalization's effect on the welfare state. We encourage more research on globalization, but suggest a more precise, refined, and nuanced understanding of how globalization shapes the welfare state.

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