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Globalization and Democracy in Advanced Industrial Societies

In the fall of 2008, the U.S. economy was in a poor state. Some might say it was on life support. Brought to the fore by skyrocketing Wall Street bonuses, income disparities between the rich and the poor had reached levels not seen since the 1930s. Income growth had fallen to 1 percent. Unemployment, after holding steady at around 5 percent, was steadily creeping upward. Unsurprisingly, polls taken in advance of November's presidential election identified economic issues as the most important for a majority of the electorate. Conventional wisdom has it that, under such circumstances, voters voice their disdain by ousting the political party of the incumbent, in this case the Republicans. This prediction indeed came to pass as the Democrats and Barack Obama handily defeated the Republican candidate in the presidential election.

It would be a mistake, however, to assume that the "Great Recession" of 2007–2009 produced, in some mechanical way, a victory for the Democrats. To inflict punishment on the incumbent party for overseeing a poor economy, voters must first attribute at least partial responsibility to government officials – if not for the severity of the downturn then for the effectiveness of the policy response. In 2008, many voters did just that, but many also did not. According to one public opinion poll just ahead of the vote, many Americans in fact doubted their government's ability to affect economic outcomes. When asked about the federal government's ability to manage the economy effectively, more than half of the respondents were of the belief that the government had the power to do so. A sizeable minority, however, questioned this capacity; 40 percent maintained that the government's ability to steer the economy was limited, on account of U.S. ties to the global economy (Pew Research Center 2008). In light of the conventional understanding of economics and elections (Tufte 1978), the differences among Americans' views on the capacity of the government to manage the economy are noteworthy.

TABLE 1.1. *Room-to-maneuver perceptions and vote choice, 2008 U.S. presidential election*

	All respondents (N=1,485)	Gov't still has power to fix economy (N=814)		Gov't cannot fix economy because of global economy (N=573)	
	All	All	Non-partisans	All	Non-partisans
McCain-Palin	46	43	39	50	52
Obama-Biden	54	57	61	50	48
Margin	*+8 Obama-Biden*	*+14 Obama-Biden*	*+22 Obama-Biden*	*0 even*	*+4 McCain-Palin*

Chi-square (all respondents) = 4.23, p-value = 0.04.
Note: Cells report percent who intend to vote for the Republican ticket of John McCain and Sarah Palin and those who intend to vote for the Democratic ticket of Barack Obama and Joseph Biden in the 2008 election according to whether they believe "the federal government cannot fix the economy so easily these days because the United States is part of a global economy" or that "the government still has the power to fix the economy." "Don't know" responses and intentions to vote for other candidates are excluded.
Source: Pew Research Center for the People and the Press Early October 2008 Political and Economic Survey.

Of even greater interest is how these views mattered for voter decisions. The poll predicted 46 percent of the popular vote for the Republican ticket of John McCain and Sarah Palin and 54 percent for Democrats Obama and Joseph Biden, for a margin of nearly 8 percent for the latter.[1] However, as Table 1.1 shows, for those Americans who believed in the room to maneuver – that is, who thought the government could still fix the economy – the Democrats' advantage was nearly twice as large. Yet those who said the government could no longer fix the economy were split equally in support of the Democratic and Republican tickets. This effect is not a function of partisan disposition; a look at independents yields an even sharper competency-based effect on voter support. Obama, it appears, owed much of his popular vote advantage to the long-held perception that governments can manage the economy, and he may not have won the election if more Americans believed that globalization's room-to-maneuver constraints were such that it made no difference which individual was pulling the policy levers as president.

This anecdote illustrates a potential implication of globalization for how voters decide. It is notable that the example hails not from some small

[1] This turned out to be an accurate prediction. The popular vote in November was 53 to 46 percent in favor of Obama-Biden.

export-driven economy of northern Europe but from the country with the world's largest domestic economy. As we will see in the examples that follow, these effects are as great or greater in democracies with smaller domestic markets and deeper ties to world markets. The September 2009 German election offers a case in point. According to some yardsticks, the Federal Republic that year had weathered the worst economic performance since the end of World War II. We would not expect such a state of affairs to bode well for Chancellor Angela Merkel and her Christian Democratic Union Party. However, counter the conventional wisdom that incumbents are rewarded for good times and punished in times of distress, the election yielded a solid victory for Merkel and the Christian Democrats. Indeed, the party emerged from the vote in a better position – from a standpoint of advocating for its preferred policies – than they had been in going into it.[2]

Or consider the Finnish election of April 2011. The Finnish case offers an illustration of the relationship between policy performance and election outcomes in a small open economy when, in terms of policy performance, the economic situation was relatively stable. Indeed, in 2010, Finland's economic growth was a respectable 3.4 percent, comfortably above the 2 percent average across the seventeen-member Eurozone. And by the first quarter of 2011, the jobless rate had dipped below 8 percent while the Eurozone average remained above 10 percent. The run-up to the election, however, was not about Finland's ability to weather the storm economically; rather, party disagreements over financial support for worse-off EU member states, such as Portugal and Greece, dominated campaign discussions. This discourse, which de-emphasized Finland's performance and focused on the country's position in the wider European economy, may account for why the incumbent Center Party (KESK) was not rewarded for comparably sound economic management but instead experienced a drop of support on the order of 16 seats in the 200-seat *Eduskunta*, falling from the largest party in the legislature to fourth in size. The populist True Finns and their charismatic leader, Timo Soini, reaped the benefits with thirty-nine seats, well above the five the party previously held.

These examples highlight many of the questions raised in this book. In today's open economies, how do voters assign credit and blame for observed outcomes? Do they attribute responsibility to the government of the day? Or do ties to the economy beyond borders absolve national politicians from being held to accounts? If capitalism on a global scale requires governments to act in line with the preferences of foreign producers and investors, then what remains of the government's policy room to maneuver? Does globalization matter for how electors choose their representatives? How does reliance on

[2] Prior to the 2009 vote, the Christian Democrats were in an uncomfortable partnership with the Social Democrats. After the election, the party was able to form a government with the Free Democratic Party, its preferred partner.

the movement of goods, services, and people across borders shape the incentives of political elites? When it comes to globalization, do leaders follow the preferences of the masses or are politicians allowed free reign? Ultimately, what effect does globalization have on political representation and popular sovereignty?

The consequences of market integration have been widely discussed by scholars, journalists, and the public at large. The lion's share of scholarly attention in political economy is concerned with how political institutions, economic organizations, and producer groups exacerbate, filter, redirect, and otherwise affect how cross-border economic ties influence domestic politics. Politics, in this sense, takes the form of *policy outputs*, such as the size of social safety nets or tax policy convergence, and the resulting *policy outcomes*, such as economic inequality or insecurity. These foci have a long and respected lineage in the study of political economy. Early work in open-economy macroeconomics predicted how policy regimes and capital movements condition domestic policy autonomy (Mundell 1960; Cohen 1965). Also influential were comparative studies on how the policy effects of governments' policy strategies were facilitated or stymied by particular structures of administrative capitalism (Katzenstein 1985; Hall 1986; Zysman 1983). More recently, work in the "varieties of capitalism" tradition, which emphasizes producer and vocational-training systems, has made an imprint on scholarly thinking about the domestic effects of the world economy (Hall and Soskice 2001; Jensen 2011a).

Attention to policy outputs and outcomes, however, has come at the expense of understanding whether and how wide-ranging trends in the movement of goods, services, people, and especially capital affect decisions of political actors. Little attention is accorded to globalization's effects on politics viewed through the lens of voters, parties, and the quality of electoral democracy. As Kayser (2007, 341) notes, "the sheer volume of literature … has made it easy to overlook an important fact: Very little of it addresses the effect of economic globalization on actual politics, understood more narrowly as electoral politics."

This is where this book comes in. Unlike most studies on the political economy of advanced capitalism, the protagonists in this story are not the aggregated entities of governments, interest groups, and macro-political organizations, per se. The emphasis instead is on individuals in their roles as citizens and political elites in their roles as representatives. This book is about how globalization alters the self-interested behavior of citizens and their representatives. This "mass politics" reorientation is informed more by insights from the study of public opinion and of party competition than it is by the study of the partisan make-up of governments or domestic political institutions. I elaborate on this point in the next section. First, however, this introductory chapter describes the current landscape in the study of economic globalization and domestic politics.

1.1. The Global Economy and Domestic Politics: The State of Affairs

Broadly construed, scholarship on the political implications of economic globalization may be put into one of two lines of argument.[3] The first of these emphasizes the efficiency gains from market integration. This argument states that, by privileging the free movement of capital for investment, employment, and growth, globalization has created a "race-to-the-bottom" in social protections. According to this *efficiency thesis*, social-democratic solutions are unattainable in a world where rules are shaped by impersonal and unaccountable financial markets. To attract capital, national policies inevitably converge on to a neoliberal mix, characterized by spending cuts, lower taxes, balanced budgets, and a general weakening of the state's productive and redistributive capacity. Observers have drawn on this logic to paint an uncertain future for independent national policies (e.g. Greider 1999; Korpi and Palme 2003; Mishra 1999; Moses 2000). The essence of the argument is captured by Steinmo (2002, 839): "Internationalization increases the availability of the exit option accorded mobile asset holders, [forcing] policymakers to compete for transnationally fluid investment via tax reductions. The result … is that all nation-states must redesign their tax systems – and most probably reduce tax burdens – to effectively compete in the new world economy."

Although many studies from the late 1990s and early 2000s discredited this perspective for lacking an understanding of the diversities in policy responses, subsequent empirical investigations have provided some vindication for earlier globalization pessimists. Drawing on evidence from this later period – a time characterized by trans-border capital market integration of a greater order of magnitude than times previous – researchers show that the relationship between economic globalization and public spending has qualitatively changed over time. Consistent with efficiency arguments, this connection has become negative in recent years (Busemeyer 2009; Jahn 2006; Plümper et al. 2005).

Evidence of globalization's constraining effects notwithstanding, many students of advanced capitalist economies would take issue with the pessimistic conclusions of the efficiency thesis. These scholars emphasize the resiliency of national policy solutions in the face of common exogenous shocks. This more positive revisionist view owes much to research examining the industrial economies' distinct policy responses in the wake of the 1970s oil crises (Cameron 1978; Katzenstein 1985; Ruggie 1982; Zysman 1983). Out of this tradition, many have become proponents of what might be called a *divergent paths* or

[3] The discussion in this section pertains to politics in advanced industrial societies. Scholars debate the extent to which these arguments apply to middle- and low-income countries (e.g., Rudra 2002; Wibbels 2006).

compensation thesis. According to this perspective, the structure of domestic politics prominently shapes policy responses to common exogenous shocks. Among the advanced capitalist economies, certain countries have willingly rolled back social protections and alleviated tax burdens so as to engage in world markets. Such is the case in the Anglo-American democracies. In many other countries, however, governments have come to terms with the exigencies of world markets by redoubling efforts to compensate those who lose out from liberalization.

The latter path has been characterized in terms of the bargain of embedded liberalism. The bargain's logic may be traced to *The Great Transformation* (1944). In it, Karl Polanyi identifies periods in western history, culminating in the collapse of democracy during the interwar period, when the economy alternatively became embedded in and dis-embedded from society. In the postwar era, governments in democracies were required to strike a bargain with the public whereby the latter supported liberal policies vis-à-vis the world economy in exchange for policies targeted at those who would lose out from globalization. The embedded liberalism bargain thus offers an explanation why the most open economies tend also to have the most extensive forms of social protection. In many cases, such as the small open states of northwest Europe, the data show that globalization does not result in the withering away of popular social safety nets.

Proponents of this compensation thesis identify a set of factors integral to the maintenance of distinct national policies. Some point to particular, path-dependent trajectories, stemming from pre-World War II bargains between capital and labor and between various producer groups, which insulate states from transnational pressures (Pierson 2001). Others focus on how domestic institutions or welfare-production regimes diffuse global economic forces (Franzese 2002; Swank 2002) or combine with partisan politics to produce specific policy outcomes (Garrett 1998). It is argued, for example, that democracies with corporatist forms of interest intermediation, proportional electoral rules, and/or recurrent left-of-center governments are better equipped to counter globalization's displacement effects with offsetting forms of compensation (e.g., Garrett 1998). Still others call attention to how tight relationships between vertically integrated firms, industries, unions, and employer associations in coordinated market economies stave off the market-privileging forces brought on by international competition (Jensen 2011a). According to this argument, even if exposure to the world economy limits certain actions, governments can offset these by directing policy in complementary areas. By heightening demands for social protection, openness may in fact facilitate responsive policymaking – a point I confront head-on in Chapter 3.

It is no exaggeration to say that revisionist arguments have achieved conventional wisdom status, particularly if we place under this umbrella more balanced arguments that allow that globalization has reduced – though not

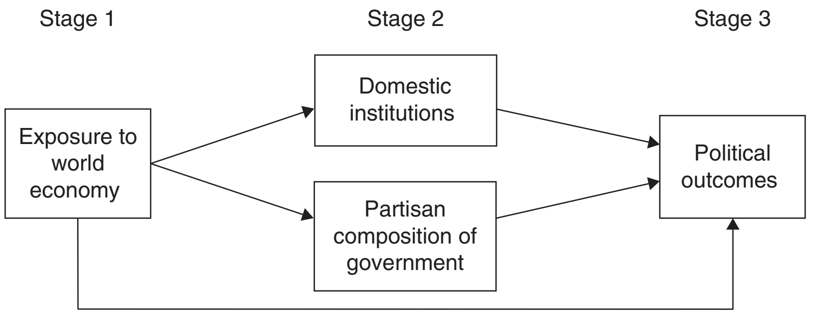

FIGURE 1.1. A standard framework linking globalization to domestic politics: markets, domestic institutions, and policy outcomes.

eliminated – the capacity of nation-state governments to pursue separate policy regimes (e.g., Hays 2009; Kittel and Winner 2005; Steinmo 2002).

These debates with respect to efficiency and compensation continue, even though efforts to reconcile the views of globalization pessimists and optimists have yielded "surprisingly little progress" (Hays 2009, 8).[4] The purpose of this book, however, is not to take sides in debates between proponents of the efficiency thesis (pessimists) and those subscribing to compensation arguments (optimists). This is not a story about policy choice under the strain of global interdependence. Rather, my objective is to emphasize what is missing from general discussions of global economics and national politics. Although the perspectives reviewed earlier arrive at different conclusions, they share a common causal framework. This general framework is summarized in stylized fashion in Figure 1.1. Economic globalization – variously gauged as exposure to international trade, the removal of restrictions on cross-border capital movements, foreign direct investment, and the like – is conceived as causally prior to and bearing on national political outcomes.[5] These political outcomes are usually conceived in terms of public spending, social transfers, and tax burdens or, in short, as policy outcomes. The general framework further posits that domestic factors, in the form of institutions and/or government partisanships, serve a

[4] Beside the central efficiency-compensation debate, a third perspective contends that relationships observed between globalization and national policy decisions are neither negative nor positive but spurious. Iversen and his collaborators, for instance, argue that factors associated with structural economic change, not globalization, account for social policy outcomes in postindustrial economies (Iversen 2005; Iversen and Cusack 2000; Iversen and Wren 1998). The implication from what we might call the *spurious effects thesis* is that globalization's effects are indirect, filtered through more fundamental structural economic changes (also see Clark 2003; Kitschelt 1994; Pontusson 1995; Rueda 2005).

[5] These measures are, strictly speaking, not exogenously determined. Figure 1.1 could also include a feedback loop reconnecting policy outcomes to globalization. However, the political science literature generally proceeds as though globalization is exogenously determined (exceptions are Mosley 2003; Adserà and Boix 2002; Bernhard and Leblang 2006; Sattler et al. 2008).

mediating role by filtering, amplifying, or otherwise shaping the domestic consequences of globalization.

But missing from Figure 1.1 is *mass politics*, defined here as the preferences and behaviors of citizens and their representatives. Most studies have little to say about political parties (apart from their roles as heads of governments) and voters. For example, a recent statement on globalization and democracy in the rich democracies is Steinmo's *The Evolution of Modern States* (2010). Steinmo argues that countries, like organisms, are different systems that adapt differently in evolving environments. This explains why "advanced capitalist states are not locked into a 'race to the bottom'" in today's globalized world (2010, 206). Although impressive in its coverage and thought-provoking in its approach, Steinmo's structural account places little import on mass politics. The relative absence of mass politics is also evident in the pages of the journal at the forefront of the study of international political economy, *International Organization*. From 2000 to 2010, the journal published twenty-three research articles on the domestic effects of economic globalization. Only one of these – Broz and Hawes' (2006) study of congressional voting – reports analyses that bear directly on the issue of political representation.

As I discuss later in this chapter, this is not to say that mass politics has gone unexamined. Existing book-length discussions, however, tend to extrapolate from macro-analyses to draw inferences for globalization and masses. For example, Swank (2002) argues that particular political institutions work to upset the "race to the bottom" in social protections that otherwise accompany financial globalization. Although concerned with macro-policy outcomes, Swank's book has a mass politics extension. Since a majority of the public supports generous social policies, and since financial market integration need not detract from delivering such policies, it follows that globalization is not damaging to healthy mass politics – at least in countries with a particular mix of political institutions. Also relevant is Hays' (2009) work on the sustainability of the embedded liberalism bargain. Hays examines aggregate policy and performance outcomes to make claims about globalization and democracy. He argues that certain electoral and labor market institutions and macro-political institutions help in our quest to understand the rise of twenty-first-century anti-globalization backlashes. Their many virtues notwithstanding, these and other studies stop short of explicitly confronting globalization's consequences for mass politics and, hence, of providing an understanding of its effects on the workings of representative democracy.[6]

[6] Another important contributor to the literature on globalization and mass politics is Kriesi et al. (2008). This work, however, does not examine the influence of economic globalization per se, but instead uses "globalization" as a summary term to characterize the new set of political issues facing democracies in Western Europe at the end of the twentieth century. I discuss this work in Chapter 6.

1.2. The Contribution of This Book

This book is set apart from previous studies in three respects. First, it reorients the study of international economics and domestic politics away from macro-outcomes and onto the actors who lie at the heart of the democratic process: individual voters and their representatives. Second, it advances an encompassing theoretical framework that joins together the many settings in which voters and elected policymakers interact. And third, it tests this argument empirically across an entire causal chain linking the components of mass politics.

This is not the first study of globalization from the perspective of parties and voters. A growing literature examines globalization with respect to mass politics. Much of this work examines public preferences over policy, and over trade policy in particular. Scheve and Slaughter's (2001) study of public opinion finds that Americans' preferences for free trade are interpretable in terms of the Stolper-Samuelson model: Owners of scarce factors of production are less likely to support free trade than owners of relatively abundant factors. Mayda and Rodrik (2005) conduct a similar individual-level analysis across a larger sample of developed and developing countries and arrive at similar conclusions (see also Baker 2005; Kaltenthaler et al. 2004; Mansfield and Mutz 2009, among others). Work on policy preferences for liberalization is growing in volume and interest among political scientists. More relevant to the current study, however, is a separate, less voluminous, literature on the individual-level implications of the compensation thesis. Compensation arguments assert that economic globalization leads to welfare state expansion by way of pressures from below. Since they have largely been performed at the country-level of analysis, tests of the globalization-welfare link have been criticized for leaving the mechanism governing this linkage unexplored. As a way to address this shortcoming, some suggest the linkage results from a game pitting elite groups vying for power against each other (Adserà and Boix 2002). Others provide tests of the linkages at the mass level. Scheve and Slaughter (2004) provide an important link between micro-analyses and the macro-based literature on policy outcomes by demonstrating that exposure to foreign direct investment increases feelings of economic insecurity among workers. Although not tested by Scheve and Slaughter, the implication is that insecurity leads to increased demands for compensation and, in turn, policies that lead to welfare state expansion. This more complete causal chain is tested by Walter (2010) using survey data from Switzerland. Walter shows that individual effects of globalization – conceived in terms of an individual's exposure to competition via her occupation – lead to greater feelings of job insecurity, greater demands for state involvement, and ultimately increased support for those political parties most likely to deliver social protections. Also notable is Margalit's (2011) work on joblessness and vote outcomes in the United States. He finds that regions of the country that experienced a greater share of jobs lost to foreign competition were more likely to vote against the incumbent president than those areas less sensitive to this offshoring threat. Margalit further shows that the anti-incumbent effect of trade-related job losses was smaller in areas where the government certified more of the harmed workers to receive special job training and income assistance.

These and other micro-level tests of the compensation hypothesis are notable both for their creativity and, as a collection, for their consistency in producing evidence in support of received wisdoms – proffered by Ruggie (1982), Katzenstein (1985), Rodrik (1998), and others about how globalization gives rise to policies to compensate those most affected. And like these studies, this book is centered on the individual voter. But it is a voter of a different sort. The individual voter commonly featured in studies of the microfoundations of the compensation argument is motivated narrowly by material interests. The voter appearing in this book evaluates globalization's effects more broadly. Taking into account her position in the national labor market, this voter assesses what globalization implies for her income and employment security and act accordingly. As with previous studies, this voter evaluates globalization in terms of its likely impact on her material well-being. But this voter also considers the broader consequences of a globalized economy. As we shall see in the following chapters, these broader consequences include the connections between globalization and non-material, or noneconomic, aspects of life.[7] They also include a consideration of what globalization means for the capacity of elected officials. Existing studies of globalization and citizen politics are by and large "bottom-up"; globalization first alters one's security or income, which, once aggregated, produces a chain of linkages leading to elite response (e.g., Walter 2010). Missing from this story, however, is an explicit consideration of the capacity of policymakers to deliver. This study, in contrast, is both bottom-up and "top-down." It recognizes that rising exposure to world markets alters citizens' belief in policy control (Alcañiz and Hellwig 2011; Fernández-Albertos et al. 2013; Hellwig et al. 2008).

This more comprehensive approach to studying the mass politics of globalization motivates my theoretical argument and ensuing empirical tests. To preview the argument, I claim that globalization reshapes the incentives of self-interested citizens and of vote-seeking politicians, and that it does so via two channels. The first is the role of issue positions, and the second is the capacity of governments to shape outcomes. These two conduits have

[7] In this book I argue that, although globalization may lead the voter to assign less weight to economic considerations, she will grant greater weight to performance considerations in areas she believes to be unrelated or only weakly affected by the economy. This latter group is composed of issues predominantly framed in terms other than their relation to the economy. These noneconomic areas could include quality of life issues, healthcare, crime, public corruption, or the environment. In this way, noneconomic is used to summarize expectations pertaining to the effects of issues and performance indicators that lie outside the area of economy, or what Jensen (2012) refers to as "life-cycle" issues.