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2005

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### **citation for published version (APA)**

Vis, B. (2005). *Trade Openness, Welfare Effort and Varieties of Welfare Capitalism*. (Working Papers Political Science; No. 2005/01).

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Working Papers Political Science No. 2005/01

*vrije* Universiteit

*amsterdam*





Working Papers Political Science No. 2005/01  
ISSN 1569-3546  
Amsterdam, July 2005

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## **Abstract**

There is a large and continuously expanding literature on the relationship between trade openness and welfare effort. The most nuanced accounts find that it depends on the type of openness (low-wage or inter-industry trade) and welfare (e.g. unemployment assistance or health-care) whether there is tension, harmony or no relation at all between openness and welfare effort. This paper contributes to this literature by assessing to what extent the effect of trade varies across the different welfare state regimes – liberal, conservative and social democratic. Such variation seems likely given that these regimes' characteristics differ. Using a broad range of empirical material for fourteen advanced capitalist democracies over, especially, the period 1980–1998, this study demonstrated that there are important cross-regime differences in different types of trade openness and the priority of welfare programmes. These findings indicate that the assumption that the impact of trade openness is similar across countries – an assumption that underlies many studies that look into the openness–welfare effort relationship –, leads to conclusions on the openness–welfare relationship that are off beam.

An earlier version of this paper was prepared for the “Varieties of Capitalism” course at the Oslo Summer School in Comparative Social Science Studies, University of Oslo, Norway, August 2004

The author would like to thank Lars Mjøset, Hans Keman, Arjan Vliegthart and Andreas Nölke for helpful comments.

## 1 Introduction

There is a large and continuously expanding literature on the relationship between economic openness and welfare effort. After almost twenty-five year of comparative research the exact nature of this relationship is still unclear. More specifically, three perspectives with contradictory findings stand abreast. The first perspective argues that economic openness and welfare effort are mutually reinforcing because the compensation that society demands for the larger risks in an (more) open economy is subsequently provided by governments (e.g. Cameron 1978; Garrett 1998). The second perspective states that although openness and welfare might once have been mutually reinforcing, they are currently in tension since the aggregate gains from trade are offset by micro-level losses such as increased insecurity, volatility and dislocation. Simultaneously, political and economic constraints like the limited fiscal and monetary autonomy inhibit governments to accommodate the prompted political demands (e.g. Kapstein 1996; Strange 1996; Rodrik 1997; 1998; Garrett and Mitchell 2001). Finally, the third perspective argues that the effect of economic openness on welfare is small, at most, because – since economic openness hardly increased over time –, the threats of openness are exaggerated (e.g. Iversen and Cusack 2000), or the relationship between openness and welfare is mediated by political and institutional conditions (e.g. Pierson 1996).

Clashing as these perspectives may seem, Burgoon (2001: 510) demonstrates that they are all to some extent right if ‘(...) the nature of openness, welfare effort, and the politics connecting them’ is taken into account. Dependent on the type of openness and welfare, there is tension, harmony or no relation at all (idem: 546). There are, at least, three reasons why the above perspectives come to different conclusions.

First, most studies use an aggregate measure of openness such as import plus export as a share of gross domestic product. This is problematic because economic theory suggests that the effect of openness on economic risks varies across types of openness and that the consequent compensation demanded varies as well. More precisely, new trade theory (Krugman 1992; 1995) proposes the so-called smooth adjustment hypothesis that informs us that the labour market adjustment costs such as job losses or the need for workers to relocate or retrain are substantially smaller under so-called intra-industry trade than under inter-industry trade (see e.g. Balassa 1966). Intra-industry trade is trade that is caused by increasing product differentiation with scale economies (Lee 2004: 6), which means that it is basically trade between developed countries, for example German shoes for Italian suits. Inter-industry trade, also known as low-wage trade, is trade that is caused by changes in the pattern of comparative advantage (Lee 2004: 6), which means that it is basically trade between developed and less-developed countries, for example Chinese textiles for Swiss watches.

Second, most studies take an aggregate measure of welfare such as total public or social expenditure as a share of gross or net domestic product. However, the demands for compensation by groups left vulnerable by greater openness and the responses of producers/investors likely vary across the different welfare policies. Burgoon (2001: 542), for example, found that low-

wage trade positively and significantly correlates with training and relocation spending and negatively and insignificantly with retirement and family assistance. These different effects would be lost if an aggregate measure of welfare was adopted instead.

Third, most studies (implicitly) assume that the impact of trade openness is similar across countries. However, the welfare state literature informs us that it makes theoretical sense to distinguish different types of welfare state regimes – liberal, conservative or Christian-democratic, and social democratic (see e.g. Esping-Andersen 1990; 1999; Pierson 2001: 428-431). A welfare regime is a cluster of countries with distinct political and policy configurations that is hence expected to evolve along a distinct path. Consequently, and given the proposition that the effect of openness likely varies across welfare policies and given that the importance of specific welfare policies is regime-dependent, the effect of trade openness on welfare effort probably diverges across welfare regimes as well.

This third reason for the clashing findings of the three welfare–openness perspectives is – contrary to the other two – not dealt with by Burgoon (2001). By posing the following question: To what extent varies the effect of trade openness across the different welfare state regimes?, this paper builds on and extends Burgoon’s findings. Answering the propound question further enhances the theorising on the relationship between trade openness and welfare effort. In addition, it contributes to the current discussion in Europe on the effects of economic openness and/or integration on the so-called European Social Model. This debate has intensified since the recent entry of the ten new European Union (EU) member-states. If the effect of openness varies across types of welfare states, this would mean that – because the (old) EU-countries belong to different types of welfare states – the effect of openness also varies within the EU.

To study the trade openness-welfare effort relationship, I use a broad range of empirical material such as disaggregated data on social expenditure and trade openness for fourteen advanced capitalist democracies: four countries from the liberal regime (United Kingdom, Ireland, United States, Canada); six from the conservative regime (Austria, Belgium, France, Germany, Netherlands, Italy); and four from the social democratic regime (Denmark, Finland, Norway, Sweden). The data cover the period 1959–2000, concentrating on the period 1980–1998.

This paper is structured as follows. Section two sets out why regime-differences are important for the openness–welfare effort debate. Section three elaborates on the two types of trade openness, low-wage trade and intra-industry trade, and shows that the different welfare regimes display various levels of both types. Section four puts forward hypotheses on the effect of openness on welfare effort in the different welfare regimes. Section five assesses the empirical validity of these hypotheses. Section six is the conclusion.

## **2 Varieties of welfare capitalism: differences matter**

The most widely used categorisation of welfare state types is the aforementioned identification by Esping-Andersen (1990; 1999) of a liberal, a conservative and a social democratic regime.

The liberal regime is characterised by its residual social policy and encouragement of, and fate in, the market; the conservative regime by its institutionalised family-income, earnings-based insurance model and widespread use of labour-supply reducing measures such as early retirement; and the social democratic regime by its universal coverage in a generous social security system in which supply-side policies have a central position (see for more extensive discussions for example Castles 1993; Pierson 2001; Esping-Andersen 2002). Esping-Andersen's categorisation builds on the classical categorisation of Titmuss (1974), whose 'residual', 'industrial achievement-performance', and 'institutional redistributive' welfare states largely overlap the liberal, conservative, and social democratic regimes. This categorisation seems stable through time. In recent work, Castles (2004: 66-7) distinguishes three (largely) similar welfare state regimes on the basis of their expenditure profiles, namely a continental Western Europe 'social security state' of which Southern Europe is a sub-type, an English-speaking 'poverty alleviation' state, and a Scandinavian 'state services state'. Not only does the categorisation hold through time, it also becomes stronger since the last two decades display substantial intra-type convergence (Castles 2004).

These different regimes vary in terms of decommodification, i.e. the extent to which citizens are relatively independent 'from pure market forces' (Esping-Andersen 2000: 353), the present social security rights, the extent of stratification as well as in their emphasis on the market, state, and family (Esping-Andersen 1999). Partly as a consequence, their politico-institutional configurations vary (Ferrera and Hemerijck 2003). This indicates that although some of the problems countries face and the solutions they provide stem from the specifics of their political economies, at least part of these responses are determined by the shared characteristics that are typical for a particular type of welfare state. The large scale comparative project that Scharpf and Schmidt directed, empirically corroborates this proposition (Scharpf and Schmidt 2000).

Given these variations, it also seems likely that the level and changes of trade openness varies across the welfare regimes. The post-war era until the 1970s indeed displays a clear pattern: the most advanced welfare states developed in the most open economies, whereas the more residual welfare states clustered in relatively protected countries. According to Esping-Andersen (1996), the answer to this puzzle lies in the way domestic institutions facilitate, or not, broad consensual solutions. With the substantial increase in openness from the 1970s onwards (see section 3), lean welfare states and open economies were no longer mutually exclusive. Understanding the new pattern requires going beyond pure domestic explanations. Therefore, the next section analyzes the level and change of trade openness in the different types of welfare states.

### **3 Trade openness: low-wage versus intra-industry trade**

Do the different welfare state regimes display different levels of and changes in the two kinds of trade openness, low-wage trade and intra-industry trade? Recall that this is an important question because the effect of (further) trade openness on welfare effort likely varies across different types of openness.



Lets begin by establishing whether there has been a rise in trade openness in general, that is in openness conventionally measured as import plus export as a percentage of gross domestic product. Table 1 shows that this trade ratio increases in all countries of this paper (except for Norway)<sup>1</sup> from 1970 onwards. More specifically, between 1980 and 1998, the liberal regime's trade ratio rises by 37 per cent. The conservative trade ratio displays less increase, namely 16 percent but at a level that was higher than the liberal regime in both years. The social democratic trade ratio, finally, increases by 7 per cent the least. Between 1990 and 1998, the ranking of changes was reshuffles somewhat: the liberal regime still displays the largest increase, namely 37 per cent; the social democratic regime is second with a 18 per cent rise; and the conservative regime has with 10 per cent the smallest increase but is still the regime with the highest level of trade in both years. To some extent, the substantially larger increase in the liberal regime stems from the low level of trade in 1990, which is around the 1970-level of the other two regimes.

**Table 1 Trade ratio in selected OECD countries, 1980-1998 <sup>a</sup>**

	1970	1980	1990	1998	$\Delta$ 1980-1998	$\Delta$ 1990-1998
United Kingdom	43.8	52.1	50.6	54.29	+ 4%	+ 7%
Ireland	77.5	106.5	109.3	161.80	+ 52%	+ 48%
United States	11.3	20.7	20.6	23.87	+ 15%	+ 16%
Canada	42.6	54.6	54.9	81.54	+ 49%	+ 49%
<i>Average liberal regime</i>	<b>43.8</b>	<b>58.5</b>	<b>58.9</b>	<b>80.4</b>	<b>+ 37%</b>	<b>+ 37%</b>
Austria	59.6	73.9	78.0	87.66	+ 19%	+ 12%
Belgium	100.9	117.7	137.7	146.09	+ 24%	+ 6%
France	30.4	43.2	43.5	49.58	+ 15%	+ 14%
Germany	39.1	51.7	54.3	56.56	+ 9%	+ 4%
Netherlands	89.7	103.8	104.6	116.49	+ 12%	+ 11%
Italy	32.1	46.1	39.4	49.36	+ 7%	+ 25%
<i>Average conservative regime</i>	<b>58.6</b>	<b>72.7</b>	<b>76.3</b>	<b>84.3</b>	<b>+ 16%</b>	<b>+ 10%</b>
Denmark	57.3	65.5	66.6	68.76	+ 5%	+ 3%
Finland	51.0	65.5	47.2	68.76	+ 5%	+ 46%
Norway	73.7	80.3	74.7	72.95	- 9%	- 2%
Sweden	47.7	60.2	59.2	81.15	+ 35%	+ 37%
<i>Average social democratic regime</i>	<b>57.4</b>	<b>67.9</b>	<b>61.9</b>	<b>72.9</b>	<b>+ 7%</b>	<b>+ 18%</b>

<sup>a</sup> Export plus import as percentage of gross domestic product in current prices.

Note: Increases in the average trade ratio of a welfare state regime are displayed in 'bold'.

Source: Heston, Summers and Aten, Penn World Table Version 6.1, Center for International Comparisons at the University of Pennsylvania (CICUP), October 2002; averages own calculations.

The data in table 1 tell us that trade openness in general increased between 1970 and 1998, but does not differentiate between different types of trade openness. Table 2 shows data for our first type of trade openness, intra-industry trade. The level of intra-industry trade is determined by the most widely used measure, the Grubel-Lloyd index (1975), which has a minimum of 0 if all trade is of the low-wage type, that is if all trade is between developed and less-developed countries, and a maximum of 100 if all trade is of the intra-industry type, that is if all trade is between developed countries. Although this sounds relatively simple, the level of intra-industry trade is in fact fairly difficult to.<sup>2</sup> Some authors, such as Marvel and Ray (1987) and Brühlhart et al. (2004), maintain that the Grubel-Lloyd index does not adequately measure the level of intra-industry trade and suggest even more complex measurements (see also Lee 2004). For our purpose of comparing the levels of different types of trade openness across welfare regimes and across time, the Grubel-Lloyd index suffices however.

**Table 2 Intra-industry trade in selected OECD countries, 1959-2000**

	1959	1964	1967	1988-1991	1992-1995	1996-2000
United Kingdom	32	40	69	70.1	73.1	73.7
Ireland	..	..	..	58.6	57.2	54.6
United States	40	40	49	63.5	65.3	68.5
Canada	28	35	48	73.5	74.7	76.2
<i>Average liberal regime</i>	33	38	55	66.4	67.6	68.3
Austria	..	..	..	71.8	74.3	74.2
Belgium <sup>a</sup>	53	60	63	77.6	77.7	71.4
France	45	60	65	75.9	77.6	77.5
Germany	39	42	46	67.1	72.0	72.0
Netherlands	55	58	56	69.2	70.4	68.9
Italy	..	..	..	61.6	64.0	65.7
<i>Average conservative regime</i>	48	55	58	70.5	72.7	71.6
Denmark	..	..	..	61.6	63.4	64.8
Finland	..	..	..	53.8	53.2	53.9
Norway	..	..	..	40.0	37.5	37.1
Sweden	..	..	..	64.2	64.6	66.6
<i>Average social democratic regime</i>	..	..	..	54.9	54.7	55.6

<sup>a</sup> For 1959, 1964 and 1967, plus Luxembourg.

Sources: Data for 1959, 1964 and 1967: Grubel and Lloyd (1975, table 3.5); data for 1988-1991, 1992-1995 and 1996-2000: OECD (2002, table VI.I); averages own calculations.

The variation across countries in the level of intra-industry trade is considerable, as table 2 demonstrates. In addition, the upward trend in most countries supports Balassa's finding of the prevalence of intra-industry specialisation under greater trade openness. Notwithstanding the individual countries' variations, the patterns the welfare regimes display are fairly distinct. Over the entire period 1959–2000, the ranking of regimes in terms of intra-industry trade levels is stable: the conservative regime has the most intra-industry trade, the social democratic regime the least (although for the latter, no data are available before 1988). This stability in terms of intra-industry trade differs from the general openness measure. Regarding the latter, the conservative regime had the highest trade ratio over the period 1970–1998 but the liberal regime on the contrary had the lowest trade ratio until 1990 and had shifted to the middle position by 1998. This discrepancy is a first indication that focusing on different types of openness is worthwhile.

The data in table 2 furthermore tell us that already in 1950, the conservative regime's level of intra-industry trade was relatively high (48 per cent). By 1964, over 50 per cent of all trade was of the intra-industry type. The liberal regime only surpasses this 50 per cent 'threshold' three years later but with a higher speed than in the conservative regime. From 1967 onwards, there seems to be some convergence between the conservative and liberal regimes regarding levels of intra-industry trade. As stated, the social democratic regime is the intra-industry trade laggard: from 1988 onwards, around 55 percent of all trade is intra-industry trade, with Denmark and Sweden having substantially more intra-industry trade (60 to 65 percent) than Finland (around 53 percent) and, especially, Norway (around 38 percent).

Our second type of trade openness, low-wage trade, is the mirror image of the first (Lee 2004: 6), intra-industry trade so that an  $x$  percent level of intra-industry trade corresponds to a  $(1-x)$  level of low-wage trade. The analysis of low-wage trade in the three welfare regimes is hence analogous: the conservative regime displays the lowest low-wage trade; the social democratic regime the highest. A commonality between the regimes is the stable level of intra-industry and low-wage trade from 1988 onwards. This indicates that if trade openness affects welfare programmes and politics in a certain way, this is likely to continue in the years to come. Because of the expected larger impact on welfare effort under low-wage trade, the material presented in this section suggests the largest impact of trade openness on welfare effort in the social democratic regime.

#### **4 Hypothesised effect of trade openness on welfare effort in the welfare regimes**

The previous section demonstrated that there are substantial differences in terms of trade openness between the welfare regimes. I argued that these differences likely lead to varying effects of trade openness on welfare effort across the welfare regimes.<sup>3</sup> This section puts forwards hypotheses about the effects of greater trade openness on welfare effort in the different welfare regimes.

Greater trade openness poses the highest risks to people that are low-skilled or own specific assets, the so-called vulnerable groups. When faced with greater trade openness, these groups will demand compensation. Such demands are probably more concentrated the closer a welfare programme is connected to the vulnerable groups' direct and short-term needs that are caused by the risen openness. Active labour market programmes such as job training and relocation assistance, and passive labour market programmes such as unemployment assistance, directly address the needs of the vulnerable groups and are hence expected to be of high priority to them. Other programmes such as retirement assistance and health-care, only address the vulnerable groups' needs indirectly or in the longer term and are consequently expected to be of low(er) priority to them.

Similarly, the resistance to or acceptance of changes in social expenditure that greater openness elicits among internationalised investors and producers, is expected to vary across the different welfare programmes. As Burgoon (2001: 522) states, the demands for compensation are likely to be resisted more when the programmes asked to be expanded constitute the greatest burden on overall taxation or budgets. This suggests stronger resistance to pension and health-care compensation than to active labour market programmes. Furthermore, because passive labour market programmes put a disproportional burden on investors and employers, these groups tend to be more hostile to passive labour market programmes than to other kinds of compensation. Moreover, new growth theory in economics informs us that some factors of the public economy are more conducive to the growth of total factor productivity – something producers and investors desire –, than others. So, trade openness is likely to inspire pressure from these groups to increased social expenditure on education, and job training and relocation assistance. Finally, some welfare programmes harm internationalised producers and investors in terms of productivity benefits, namely health-care, retirement and family assistance, and these groups are therefore expected to oppose such compensation fiercely.

These varying responses to greater openness should spark four different patterns of compensation politics and, hence, have varying implications for the different welfare programmes. Figure 1 displays the expected patterns. First, openness is expected to inspire harmonious, one-sided politics that expands welfare effort for welfare programmes that are subject to strong compensation demands and investor support or low opposition, such as job training and relocation assistance. Second, openness is expected to inspire one-sided politics that retrench welfare effort for welfare programmes that are diffusely connected to compensation demands and high investor and producer concern, like retirement assistance, health-care, and family assistance. Third, openness is expected to spark more conflictual politics with indeterminate outcomes for welfare programmes that are subject to strong compensation demands and high investor hostility, like unemployment assistance. Fourth, openness is expected to spur few political struggles and little change in welfare effort for welfare programmes that are remote from both compensation demands and investor fears, such as educational spending.

**Figure 1 Support for or opposition to welfare compensation in the face of greater economic openness**

		Internationalized producer/investor stance of welfare compensation	
		SUPPORT OR LOW OPPOSITION	HIGH OPPOSITION
Demand of vulnerable group for welfare compensation	HIGH	One-sided politics: Welfare expansion  Job training and relocation assistance	Conflictual politics: Indeterminate outcome  Unemployment assistance
	LOW	No politics: Little change  General education	One-sided politics: Welfare retrenchment  Health-care Retirement assistance Family assistance

Source: Burgoon (2001).

These different patterns of compensation politics and welfare programmes clearly suggest that greater trade openness encourages larger changes in some welfare regimes than in others. The liberal regime's priority to poverty alleviation and health-care, its almost absent job training and relocation programmes, its faith in and support of the market, and its high level of intra-industry trade meaning relatively low adjustment costs and hence modest demands from vulnerable groups, lead to the hypothesis that the transformations in this regime caused by greater trade openness are modest, at most, and largely unproblematic politically. The social democratic regime's priority on services including active labour market policies such as job training and relocation assistance – that have large political support because they include the middle class as Scharpf and Schmidt (2000) point out –, and its relative high level of low-wage trade indicating that the demands of vulnerable groups might be higher here than in the other regimes, suggest rises in expenditure on job training and relocation assistance and (a smaller) rise in unemployment assistance without much political upheaval. The conservative regime's contribution based social security systems with low priority for job training and relocation assistance, its generous unemployment assistance for the 'insiders', and its ageing population indicate that the transformation caused by greater trade openness in this regime is probably most substantial of the three and accompanied by possibly severe political struggles. However, the level of low-wage trade in this regime is lowest, which means that the adjustment costs resulting from the need to accommodate the risks put forward by greater openness might not be that large and that, consequently, the changes in this regime might be modest as well. The next section assesses the empirical validity of these hypotheses.

## **5 The findings**

There are various ways to measure welfare effort. As already noticed, by taking an aggregate measure of welfare effort, important information can get lost. Therefore, I use disaggregated data on social policy categories (OECD 1998; 2001). In an often-cited quote, Esping-Andersen (1990: 19) states that ‘expenditures are epiphenomenal to the theoretical substance of welfare states’. However, Castles (2002: 616) argues that the disaggregated data from the OECD databases allow for the elaboration of expenditure measures that provide more nuanced information than before on the ‘character and trajectory of social policy change and reform’, which justifies using them in this study.

This paper focuses on six spending categories:<sup>4</sup> 1) total public expenditure; 2) job training and relocation assistance; 3) retirement assistance, measured by old-age cash, elderly and disabled assistance and survivor’s benefits; 4) family assistance, measured by family cash and services; 5) health-care; and 6) unemployment, measured by unemployment compensation, early retirement for labour market reasons and severance pay. The appendix provides tables on these categories’ expenditures in 1980, 1990 and 1998; table 3 presents the changes in these expenditures between 1980–1998 and between 1990–1998;<sup>5</sup> and table 4 presents the ranking of the changes in spending priorities across the regimes as well as across the different periods.

**Table 3 Changes in expenditures on selected welfare programs, 1980-1998**

	Job training and re- location assistance		Retirement as- sistance		Family assis- tance		Health care		Unemployment		Total public ex- penditure	
	Δ80-98	Δ90-98	Δ80-98	Δ90-98	Δ80-98	Δ90-98	Δ80-98	Δ90-98	Δ80-98	Δ90-98	Δ80-98	Δ90-98
United Kingdom	-25%	-53%	+75%	+53%	-3%	-70%	+15%	+13%	-70%	-52%	+35%	+27%
Ireland	-79%	-71%	-30%	-28%	+53%	-51%	-34%	-4%	-51%	-36%	-10%	-18%
United States	-38% <sup>b</sup>	-38%	+1%	+5%	-36%	-64%	+52%	+24%	-64%	-36%	+9%	+11%
Canada	-36%	-22%	+81%	+27%	-21%	-19%	+24%	-4%	-19%	-48%	+37%	+3%
AVER. LIBERAL REGIME	-61%	-49%	+28%	+18%	+2%	-50%	+7%	+6%	-50%	-43%	+17%	+5%
Austria	+115%	+87%	+212%	+222%	+197%	+28%	+26%	+4%	+28%	-24%	+128%	+84%
Belgium	+22%	+13%	-3%	0%	-29%	-3%	+12%	-8%	-3%	-6%	+4%	-1%
France	+52%	+2%	+21%	+7%	+7%	+37%	+22%	+10%	+37%	-4%	+23%	+8%
Germany	+37%	-6%	+1%	+10%	+15%	+67%	+12%	+17%	+67%	+20%	+15%	+18%
Netherlands	+143%	+6%	-25%	-31%	-54%	+50%	+1%	-1%	+50%	+2%	-16%	-19%
Italy	+15%	+36%	+63%	+22%	-20%	+18%	-2%	-13%	+18%	-15%	+36%	+9%
AVER. CONSERVATIVE REGIME	+48%	+9%	+25%	+17%	0%	+20%	+11%	+1%	+20%	-10%	+20%	+10%
Denmark	+350%	+200%	+9%	+6%	+28%	-33%	+17%	+28%	-33%	-23%	+8%	+6%
Finland	+613%	+54%	+28%	+2%	+76%	+275%	+3%	-18%	+275%	+120%	+40%	+5%
Norway	+19%	-44%	+31%	+1%	+43%	+28%	+18%	+8%	+28%	-57%	+45%	+2%
Sweden	-36%	-51%	+9%	-1%	-48%	+395%	-23%	-16%	+395%	+110%	+4%	-4%
AVER SOCIAL DEMOCRATIC REGIME	+104%	+16%	+19%	+2%	+10%	+30%	+1%	-2%	+30%	+9%	+21%	+2%

a 1985.

b Δ 1990-1998.

Sources: Data for 1980 and 1990: OECD SOCX 1998; data for 1998: Source OECD Social Expenditures Database Public Expenditure Vol 2001; averages own calculations.



**Table 4 Ranking of spending priorities' changes in welfare regimes, 1980-1998**

Liberal regime		Conservative regime		Social democratic regime	
1980-98	1990-98	1980-98	1990-98	1980-98	1990-98
Retirement (+ 28%)	Retirement (+18%)	Job training (+ 48%)	Family (+ 20%)	Job training (+ 104%)	Family (+ 30%)
Total (+ 17%)	Health care (+ 6%)	Retirement (+ 25%)	Retirement (+ 17%)	Unempl (+ 30%)	Job training (+ 16%)
Health care (+ 7%)	Total (+ 5%)	Unempl (+ 20%)	Total (+ 10%)	Total (+ 21%)	Unempl (+ 9%)
Family (+ 2%)	Unempl (- 43%)	Total (+ 20%)	Job training (+ 9%)	Retirement (+ 19%)	Retirement (+ 2%)
Unempl (- 50%)	Job training (- 49%)	Health care (+ 11%)	Health care (+ 1%)	Family (+ 10%)	Total (+ 2%)
Job training (- 61%)	Family (- 50%)	Family (0%)	Unempl (- 10%)	Health care (+ 1%)	Health care (- 2%)

*Notes:* Ranking is based on data from table 3; expenditure on the social policy categories that are 'bold' increased over time period under consideration whereas 'bold and italics' indicates decreased expenditure.

For all regimes, expenditure on job training and relocation assistance was expected to expand in face of greater openness because of the vulnerable groups' high demands for such compensation and the low opposition from internationalised investors and producers to such compensation. The data in table 3 support this hypothesis for the conservative and social democratic regimes, but contradict it for the liberal regime. More specifically, the growth in expenditure on this social policy category is largest of all programmes between 1980 and 1998 in the conservative and social democratic regime whereas the liberal regime expenditure retrenches most on this category between 1980 and 1998 and second between 1990 and 1998. Although it goes to far to investigate this in this paper, these findings suggest that the materialisation of job training and relocation prioritisation could depend on the coordination between employer and employee-organisations since this coordination is higher in the conservative and social democratic regimes than in the liberal regime.

Retirement assistance was expected to retrench in face of greater openness because of the high opposition to compensation by internationalised investors and producers and the low demands of vulnerable groups. However, expenditure on this welfare programme rises in all regimes, with the increases between 1980 and 1998 being higher than between 1990 and 1998. These findings could be an indication of the larger share of elderly in the population in all regimes and the subsequent rising expenditures. Ireland, remarkably, is the only country that substantially retrenched its retirement assistance.

Family assistance was, for the same reason as retirement assistance, expected to be subject to retrenchment. The evidence on this is somewhat mixed. Between 1980 and 1998,



all regimes hardly change: plus 2 per cent in the liberal regime (however: some retrenchment everywhere except in Ireland); no change in the conservative regime (Austria, France, Germany expansion; Belgium, Netherlands, Italy retrenchment); and 10 per cent increase in the social democratic regime (expansion everywhere except for Sweden). Between 1990 and 1998, however, a different pattern arises. The liberal regime retrenches substantially (as do all individual countries), whilst the conservative and social democratic regimes expand (retrenchment in Belgium and Denmark). In the latter two regimes, family assistance is even spending priority number one between 1990 and 1998.

The hypothesized influence of openness on health-care was negative, i.e. retrenchment, again for the same reasons as retirement. In reality, however, all regimes expand their expenditures on this category between 1980 and 1998. Between 1990 and 1998, the conservative and liberal regimes display some expansion and although the social democratic regime decreases its expenditure on this welfare programme, this was only by 2 per cent. In the conservative and especially the social democratic regime, health-care spending has low priority whereas it has high priority in the liberal regime.

Regarding unemployment assistance, the expected outcome was indeterminate because of the high demand for and high opposition against expansion. The data support this indistinctness. The liberal regime cuts its comparatively low expenditure unemployment assistance substantially back (except for Ireland); the conservative regime expands its expenditure between 1980 and 1998 but retrenches it between 1990 and 1998 (predominantly caused by more individual countries retrenching, namely Austria, Belgium, France, Italy); and the social democratic regime expands its expenditure on unemployment assistance (except for Denmark), whereby in the latter the expansion is higher between 1980 and 1998 than between 1990 and 1998.

In face of the three perspectives on the openness-welfare effort relationship put forward in the introduction, we can expect three patterns regarding total public expenditure: no change, expansion, or retrenchment. The data in table 3 shows that expenditure on this overarching category expands in all regimes in both periods. This means that if we only had looked at total public expenditure, the conclusion that trade openness leads to a similar increase of welfare effort in the various welfare state regimes would seem valid. The analysis here shows that such a finding would be unwarrantable and that the real patterns are more complex. Job training and relocation assistance is top priority in the conservative and social democratic regimes, as expected, but the expenditure on this category decreases in the liberal regime. Retirement assistance increases in all regimes, contrary to expected. Family assistance falls substantially in the liberal regime whilst the conservative and social democratic regimes displayed rises, a mixed outcome that match the expectations. Health-care expands in the conservative and liberal regime and is somewhat cut in the social democratic regime, contrary to the expected retrenchment. Finally, unemployment assistance has mixed outcomes as well with the social democratic regime expanding, the liberal regime retrenching and the conservative regime

expanding between 1980-1998 and increasing between 1990-1998.

The differences between the regimes are clear. Nevertheless, the conservative and social democratic regimes are relatively close to one another. This is an interesting observation once we recall the resemblance between the liberal and conservative regimes in terms of trade openness levels. The analysis in this section additionally shows that differences are not only distinct between the regimes but also between the welfare programmes, indicating that a focus on disaggregated measures is indeed warranted.

## **6 Conclusion**

This paper empirically assessed to what extent the effect of trade openness varies across the different welfare state regimes. The presence of such variation was considered likely because welfare state research demonstrates that there are substantial regime-differences for example in the prioritization of specific welfare policies and Burgoon (2001) showed that the type of openness and the type of welfare policies determines if there is tension, harmony or no relation at all between openness and welfare effort.

The cross-regime variation in the two types of trade openness – intra-industry trade, i.e. trade between developed countries, and low-wage trade, i.e. trade between developed and less-developed countries – indeed proved substantial. Over the entire period 1959–2000, the conservative regime displayed the highest level of intra-industry trade and the social democratic regime the lowest. Low-wage trade was, by definition, the exact mirror image of intra-industry trade. Because new trade theory informed us that the labour market adjustment costs such as the need for workers to relocate or retrain are substantially smaller under intra-industry trade than under low-wage trade, the different levels of these types of trade is a first indication that the effect of openness varies across the welfare regimes.

Next to these different patterns of trade openness, different patterns of compensation politics and welfare programmes were identified. I argued that the compensation demanded by groups put at risks and the support for or opposition against such compensation by internationalised producers and investors varies across welfare programmes. More specifically, I expected social expenditure on job training and relocation assistance to expand; expenditure on health-care, retirement assistance, and family benefits to retrench; and the direction of change in expenditure on unemployment assistance to be indeterminate. These hypotheses were supported to various degrees in the different welfare regimes. The relative large changes in the liberal regime contradicted the hypothesis of modest change, and also the relative minor changes in the conservative and social democratic regimes were contrary to hypothesized. However, the increase in expenditure on job training and relocation assistance in the conservative and social democratic regimes was in line with the expectations.

In sum, there are some important conclusions to be drawn. First, there are substantial cross-regime differences in trade openness that should be taken into account. For example, the social democratic countries display the highest level of low wage trade within the EU. This

means that these countries – because of the higher labour market adjustment costs resulting under low-wage trade – are hit hardest by the entry of the new EU member-states. This also means, and that is the second conclusion, that we simply cannot assume – as many studies still do – that the effect of trade openness is similar across countries. Third, a broad operationalisation of welfare effort, for example total public expenditure, most probably hides important information and hence inhibits our understanding of contemporary welfare states. Finally, linking different types of trade openness, patterns of compensation politics and different welfare programmes, provides theoretical foundation for the intuition that the effect of trade openness on welfare effort varies across welfare regimes.

## Notes

<sup>1</sup> However, the decrease in trade openness in Norway is relatively small, especially between 1990 and 1998. Moreover, within the social democratic countries, Norway is the most open economy in terms of trade from 1970 to 1990 and the second most open in 1998 (after Sweden).

<sup>2</sup> This difficult measurement is probably one of the reasons why scholars stick to the simple ‘import plus export as percentage of GDP’ openness measure.

<sup>3</sup> This argumentation draws heavily on Burgoon (2001). My contribution lies in the explicit link between this argumentation and the different welfare regimes.

<sup>4</sup> Categories 1 to 5 are operationalised following Burgoon (2001).

<sup>5</sup> The period 1980–1998 is chosen because the level of trade openness clearly rises between these two years (see table 1). The period 1990–1998 is incorporated to check if the effects are stable through time.

APPENDIX

**Table A1 Job training and relocation assistance & Retirement assistance, 1980-98**

	Job training and relocation assistance			Retirement assistance		
	1980	1990	1998	1980	1990	1998
United Kingdom	.24	.38	.18	7.67	8.75	13.42
Ireland	.80 <sup>a</sup>	.59	.17	5.98	5.86	4.2
United States	..	.16	.1	6.85	6.59	6.9
Canada	.59 <sup>a</sup>	.49	.38	3.36	4.78	6.09
Average liberal regime	.54	.41	.21	5.97	6.50	7.65
Austria	.13 <sup>a</sup>	.15	.28	4.74	4.58	14.77
Belgium	.36 <sup>a</sup>	.39	.44	11.50	11.17	11.17
France	.31	.46	.47	10.78	12.15	13.05
Germany	.41 <sup>a</sup>	.60	.56	11.92	10.89	12.0
Netherlands	.14	.32	.34	12.50	13.58	9.43
Italy	.13 <sup>a</sup>	.11	.15	10.07	13.47	16.43
Average conservative regime	.25	.34	.37	10.25	10.97	12.81
Denmark	.24	.36	1.08	7.91	8.19	8.65
Finland	.08	.37	.57	8.43	10.57	10.80
Norway	.21 <sup>a</sup>	.45	.25	7.00	9.05	9.14
Sweden	.59	.77	.38	9.41	10.31	10.25
Average social democratic regime	.28	.49	.57	8.19	9.53	9.71

<sup>a</sup> 1985.

<sup>b</sup> Δ 1990-1998.

Sources: Data for 1980 and 1990: OECD SOCX 1998; data for 1998: Source OECD Social Expenditures Database Public Expenditure Vol 2001; averages own calculations.

**Table A2 Family assistance & Health care, 1980-98**

	Family assistance			Health care		
	1980	1990	1998	1980	1990	1998
United Kingdom	2.29	1.95	2.22	4.89	4.98	5.62
Ireland	1.14	1.53	1.74	7.10	4.86	4.66
United States	.8	.44	.51	3.85	4.71	5.86
Canada	.75	.7	.59	5.19	6.72	6.44
Average liberal regime	1.25	1.16	1.27	5.26	5.32	5.65
Austria	1.02	1.58	3.03	4.57	5.56	5.77
Belgium	3.12	2.36	2.22	5.49	6.66	6.13
France	2.52	2.47	2.69	5.95	6.60	7.27
Germany	2.37	1.74	2.73	6.96	6.67	7.8
Netherlands	2.63	1.73	1.21	5.92	6.05	5.97
Italy	1.10	.75	.88	5.64	6.35	5.51
Average conservative regime	2.13	1.77	2.13	5.76	6.32	6.41
Denmark	2.94	3.42	3.77	5.80	5.31	6.79
Finland	1.91	3.30	3.36	5.14	6.45	5.28
Norway	1.82	2.36	2.60	5.95	6.49	7.01
Sweden	4.10	4.70	2.13	8.67	7.88	6.64
Average social democratic regime	2.69	3.45	2.97	6.39	6.53	6.43

Sources: Data for 1980 and 1990: OECD SOCX 1998; data for 1998: Source OECD Social Expenditures Database Public Expenditure Vol 2001; averages own calculations.

**Table A3 Total public expenditure & Unemployment benefits, 1980-98**

	Total public expenditures			Unemployment benefits		
	1980	1990	1998	1980	1990	1998
United Kingdom	18.32	19.50	24.70	1.07	.66	.32
Ireland	17.61	19.23	15.77	3.52 <sup>a</sup>	2.68	1.72
United States	13.38	13.12	14.59	.69	.39	.25
Canada	13.16	17.56	18.03	1.22	1.89	.99
Average liberal regime	15.62	17.35	18.27	1.63	1.45	.82
Austria	11.74	14.54	26.80	0.71	1.20	0.91
Belgium	24.60	25.56	24.54	2.53	2.61	2.46
France	23.47	26.66	28.82	1.31	1.87	1.80
Germany	23.71	23.20	27.29	.79	1.10	1.32
Netherlands	28.53	29.68	23.90	1.73	2.55	2.60
Italy	18.37	23.08	25.07	.60	.84	.71
Average conservative regime	21.80	23.79	26.07	1.28	1.70	1.53
Denmark	27.54	28.11	29.81	5.01	4.40	3.37
Finland	18.90	25.18	26.54	.68	1.16	2.55
Norway	18.55	26.48	26.97	.36	1.15	.49
Sweden	29.78	32.18	30.98	.39	.92	1.93
Average social democratic regime	23.69	27.99	28.58	1.61	1.91	2.09

<sup>a</sup> 1985.

Sources: Data for 1980 and 1990: OECD SOCX 1998; data for 1998: Source OECD Social Expenditures Database Public Expenditure Vol 2001; averages own calculations.

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