

**THE COMPROMISE OF EMBEDDED LIBERALISM AND GOVERNMENT
CREDIBILITY**

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Introduction:

Embedded liberalism compromise and role of credible commitment

Increasing domestic income inequality and economic insecurity has been of concern to government because of its political implications for the government's future trade liberalization agenda. Although scholars do not seem to have as yet reached a consensus on the question of whether it is increasing openness that has been a cause of job displacement and widening income inequality¹, the simultaneity of the two developments seems sufficient to make economic openness be considered the most prominent culprit². In fact, trade liberalization by its nature implies adjustment, the costs of which often have detrimental effects on the unskilled at least in the short run. This means, unlike what simple Heckscher-Ohlin trade theory suggests – trade liberalization will relieve poverty (income inequality) in developing countries (relatively unskilled-labour-abundant countries by definition) – it could be the case that those adversely affected by trade liberalization are disproportionately poor even in developing countries. Given the widespread perception of the tension between implementing trade liberalization and alleviating inequality and insecurity, governments committed to further trade liberalization may need to provide insurance and other transfers to compensate those adversely affected by trade. This is one of the core assumptions of the embedded liberalism thesis.

A long line of scholars, from Ruggie (1983), Cameron (1978), and Katzenstein (1985) to Rodrik (1997) and Garrett (1998), have argued that concerns about the relationship between trade liberalization and domestic economic inequality (and insecurity) are warranted; but that does not necessarily turn the public that is exposed to more volatile labour markets against further trade liberalization (Ruggie 1983, 261-285; Cameron 1978, 1243-1261; Katzenstein 1985; Rodrik 1997; Garrett 1998). According to this argument, trade liberalization and welfare expansion are in a mutually reinforcing relationship: (1) trade liberalization is likely to increase demand on governments to cushion trade-induced insecurity and inequality by welfare state expansion; (2) welfare state expansion as a compensation in could help maintain public support for trade liberalization. That is, a new grand domestic bargain (new embedded liberalism compromise) is likely to be made: publics are asked to embrace the change and dislocation produced by trade liberalization; but governments will in return promise to protect those adversely affected by means of their social, economic policy roles (Ruggie 1983, 261-285; Ruggie 1996).

The new embedded liberalism compromise is, however, based on the premise that the public trusts in its government's *desire* and *ability* to cushion trade-induced insecurity and

¹ Scholars such as Deininger and Squire (1998) suggest that trade liberalization has led to a pattern of growth that disproportionately benefits the rich thereby worsening income inequality (Deininger and Squire 1998, 259-287). Other scholars such as Dollar and Kraay (2000) however cast doubt on this assessment – they find that openness benefits the poor to the same extent that it benefits the whole economy (Dollar and Kraay 2004, F22-F49).

² Freeman (1995), for example, argued that economic openness had significant deleterious effects on the labour market in the OECD countries, although it is not the only reason for widened income disparity (Freeman 1995, 16-21).

inequality by welfare state expansion. Although government assistance packages – such as Trade adjustment assistance (TAA) of the United States, for example – often come with trade liberalization, it is not clear if those programs suggested by government as compensation would make the new grand domestic bargain possible in any circumstances. It may be that an increase in trade at time $t - 1$ has a discernible effect on welfare spending at time t – that is, there may be a short-term causal relationship between trade and welfare spending. Even if that is the case, however, if the welfare spending does not lead to public support for trade, the openness-welfare nexus will not be sustainable. For the openness-welfare nexus to be mutually reinforcing and sustainable, the public should be willing to compromise on trade liberalization policies in return for the promised assistance packages. A problem of credible commitment arises here, because trade liberalization and its compensation often involve intertemporal/non-simultaneous exchanges between government and the public. Government attempts to invest in social welfare in the hope that its investments help build public support for openness; but compromise of any significance will not be made unless the government commitment to welfare expansion is viewed by its public as credible. Likewise, there is not much incentive for the government to increase welfare spending, unless welfare spending is seen as a viable solution to the political dilemma faced by democratically elected politicians who are committed to trade liberalization. Social factors such as the public's confidence in strong, effective governmental institutions to protect them against vagaries of free market economy, however, take long time to develop. In other words, the fear of external economic insecurity takes time to be effectively mitigated through welfare programs and social insurance, while deleterious impacts of trade liberalization can be perceived to be a more imminent threat. Moreover, it could also be an issue to some people that trade liberalization, once implemented, might render domestic politics impotent ((Kaufman and Segura-Ubiergo 2001, 553-587; Rudra 2002, 411-445).

I argue in this paper that the conditions that make government commitments credible are one of the keys to explaining variations in public attitudes towards trade liberalization across countries. By conditions that make commitments credible, I mean both institutions and perceptions. The concept of credible commitment is typically viewed as a matter of institutional contexts, but in this paper I focus on “perceptions” of the concept that the institutions will work – i.e., perceived credibility of the long-term policy promise – since contextual factors such as institutions only indirectly exercise their influence on the attitudes of individuals (Jacobs 2005). The specific questions I address in this paper are therefore as follows. First, I investigate how the public perceptions of government's desire and ability to hold onto the long-term policy promise are related to public attitudes toward trade liberalization. Second, by drawing implications from the answers to the first question, I discuss whether or not it matters to people under which type of regime they live – e.g., democratic or authoritarian regime, or social democratic welfare regime or liberal welfare regime – with respect to their acceptance of trade liberalization policies.

This paper proceeds as follows. In the first section, I outline why conditions that make government commitments credible is essential to understanding theoretical debates on trade liberalization and welfare expansion. Here, I briefly review and critique the literature on trade and government spending. In the second section, I present a series of empirical models highlighting effects of government credibility on protectionist sentiment. Based on the findings, I conclude in the final section.

An argument:

Credible commitment and individual attitudes toward trade

The embedded liberalism thesis argues that governments can build public support for trade liberalization by compensating those adversely affected by trade with welfare policies. According to the thesis, faced with increased market risks, individuals look to government for policies that help ensure against those economic risks, which consequently leads to growth of the welfare state (Rodrik 1997; Garrett 1998; Garrett and Lange 1995, 627-655). To find the micro-foundations for the embedded liberalism thesis that link the two macro-phenomena, i.e., trade liberalization and welfare growth, scholars have studied the two issues: (1) whether those who expect to be at risk after trade liberalization translate their concerns (objective economic insecurity) into subjective economic insecurity; and (2) whether the subjective insecurity in fact induces changes in citizens' policy preferences to demand protection and compensation (Garrett and Mitchell 2001, 145-177; Burgoon 2001, 509-551; Hays, Ehrlich, and Peinhardt 2005, 473; KITTEL and WINNER 2005, 269-293).

The argument that economic openness results in welfare growth by inducing economic insecurity of those at risk, however, tells only one side of the story. Basically, most of the works predicting a positive relationship between openness and welfare adopts an implicit, simple "stimulus-response model of politics" if borrowing Rudra and Haggard's words (Rudra and Haggard 2005, 1015-1049). With the demand side of the trade liberalization-welfare growth nexus focused, the supply side of the nexus story has been largely missing. As Hays et al. (2005) nicely summarized, the embedded liberalism thesis is based on the idea that (1) there is universal expectation among the citizens for their governments to offset the increased vulnerability and insecurity associated with trade, and to distribute the benefits of trade through government intervention or by expanding social insurance, and that (2) public support for trade liberalization depends on the willingness and ability of governments to do this successfully (Hays, Ehrlich, and Peinhardt 2005, 473). What matters from the government perspective (supply side) would be not so much the former – *i.e.*, the issue of whether there exist such feelings of (trade-induced) economic insecurity and demands for welfare expansion – as the latter – *i.e.*, the issue of whether its commitment to welfare would help maintain or further increase public support for trade policies. The issue therefore now turns to the question of whether government commitment to welfare expansion is (and is perceived as) credible. That is, does government have willingness and ability to cushion trade-induced insecurity and inequality by welfare state expansion? And are they viewed by its public as credible? By tackling these questions, this paper provides an explanation for the variation in public support for trade liberalization across countries.

Scholars exploring the dynamics behind embedded liberalism thesis have overlooked the fact that government commitments to welfare, and individual perceptions thereof, can vary across countries. Governments responding to globalization in different domestic institutional environment have different levels of desire and ability to commit credibly to welfare provision as compensation. While having focused on demonstrating the (general) association between the two macro phenomena – *i.e.*, economic openness and welfare expansion – globalization scholars have relatively neglected the differences in economic and political institutions across countries. Considering that analyses of the trade liberalization-welfare growth nexus are conducted focusing mostly on developed countries (OECD

countries), it is understandable that the differences have not been the major concern to the globalization scholars. Empirically, however, government social welfare spending, faced with the similar pressure of globalization, has diverged between countries, especially between developed and developing countries. Spending has risen in developed countries in general, but declined, though slightly, in less developed countries (LDCs) since 1970s, which requires the embedded liberalism thesis to be reassessed. Welfare spending is not identical to one another even in developed countries, and is often marked by tremendous diversity. Moreover, as briefly discussed above, the existing literature exploring the micro-foundation of the openness-welfare nexus suggests that individuals' perceptions of economic insecurity (and inequality) lie at the core of the embedded liberalism thesis (Rodrik 1997; Garrett 1998). Given that, for economic openness and welfare to be mutually reinforcing, it needs to be ensured that welfare will effectively mitigate individual perceptions of economic insecurity, and thereby help maintain public support for trade liberalization policies. I hypothesize thus that public support for trade liberalization depends on conditions that make government commitment to welfare credible, which consequently explains the different degrees of association between openness and welfare across countries.

Problems of commitment in politics often arise from non-simultaneity of political exchange (intertemporal bargains). This paper begins with the observation that trade politics also has a temporal feature, which poses a commitment problem. When Ruggie (1983; 1996) suggested the idea of "grand social bargain," whereby all sectors of societies agree to open markets, and governments in exchange promise to moderate the volatility of open markets and provide social safety nets and adjustment assistance as compensation (Ruggie 1983, 261-285; Ruggie 1996), he also seemed aware of the problem of commitment involved in the bargain, thereby emphasizing the role of the governments in enacting and sustaining the bargain. Given the temporal feature of the grand bargain, it is not surprising that government policy initiatives to provide more welfare are sometimes met with the public scepticism. While trade liberalization is often accompanied by promises that losers from trade will be compensated, these promises are not binding. Presumably people are likely to endorse the grand bargain only when government promises to cushion the adverse domestic effects of open markets are viewed as credible. If viewed as not credible, the grand bargain would not be enacted, let alone sustained. Conditions that make such government promises credible – e.g., legacy of previously instituted welfare policies or perceived effectiveness of government – vary across countries; and for instance, as Ruggie pointed out, LDCs have never enjoyed the privilege of cushioning from vagaries of market exposure, which is likely to make security-enhancing functions of government promises not work at the same level as they do in countries with a long welfare state tradition.

In the political science literature that uses the concept of credible commitment, much attention has been paid to institutional structures that play a role in reducing political uncertainty (North and Weingast 1989, 803; North 1994). The focus of this paper is, however, more on *perceptions* of the credibility of government commitment to welfare expansion than *institutions* themselves, although I admit that the presence of a set of formal institutions is often considered a necessary precondition for attaining such perceptions. It is subjective feelings of trade-induced economic insecurity that condition the levels of public support for trade liberalization; and thus public provision of social protection matters only to the extent that the public provision does reduce those subjective feelings. As the vast literature on bounded rationality tells us, people often have great difficulties in making

inferences especially when uncertainty is involved, because of interaction between their limited cognitive capacities and fundamental complexities of the environments they face (Simon 1991, 125-134; Jones 2003, 395-412). Given the bounds of human cognition, what matters is not so much whether welfare expansion is indeed driven by increasing exposure to international risk generated by globalization or by some other factors such as the state of the domestic economy or partisan effects.³ It is also not so much whether welfare policies to which governments promised to devote resources are indeed designed to enhance objective social equality and insecurity⁴. Rather, it is people's perceptions that matter: insofar as people *trust* their governments in their willingness and ability to compensate market losers, public support for trade will be maintained, which will consequently help the social grand bargain to be enacted and sustained.

There is another reason why perceptions matter: perceptions are not something that can be easily created or dismissed. Individual perceptions of government credibility to cushion trade-induced insecurity, which is the focus of this paper, for example, have been shaped over a long period of time by political institutions and legacies of previously instituted public policies. In fact, many scholars have focused on a "short-term" causal relationship between trade and government spending (Rodrik 1997; Rodrik 1998, 997-1032; Swank 2001, 133-162; Adserà and Boix 2002, 229; Mares 2004, 745-774). They argue that governments can simply garner public support for trade by neutralizing the negative effects of market integration through social policies. I argue, however, that if it is the case that the public perceptions of government credibility play an important role in maintaining pro-trade opinions, which will be tested in the next section, the relationship between trade and welfare state effort should be considered not so much a short-term, but rather a long-term and historically contingent one, as once argued by Garrett and Mitchell (2001) (Garrett and Mitchell 2001, 145-177). Scholars working with an historical institutionalist approach, which this paper falls in line with, have long pointed out the importance of the analysis for history and culture in explaining different outcomes in economic performance or policy (March and Olsen 1989; Skocpol 1992; Pierson 1994; Hall and Soskice 2001). Hall and Soskice (2001) in their work on varieties of capitalism argue that the presence of a particular set of formal institutions is rarely sufficient to guarantee a specific outcome, by indicating indeterminacy problems associated with the existence of multiple equilibria. They thus introduce the role of culture and historical experience in their analysis that shapes "a set of shared understandings of what other actors are likely to do" (Hall and Soskice 2001). For the purpose of this paper, the two ideas in which historical institutionalism is grounded are noteworthy: (1) a historically constructed set of institutions and policy feedbacks structure

³ Kittel and Winner (2005), for example, in their paper re-assessing a study of the globalization-welfare state nexus by Garrett and Mitchell, argue that government spending is primarily driven by the state of domestic economy, and that neither partisan effects nor the international economic environment have affected public expenditure considerably. In this paper, I argue, however, that the embedded liberalism thesis still holds even if Kittel and Winner's argument is empirically demonstrated, because public support for trade depends on *perceptions* of welfare- or security-enhancing functions of social programs (KITTEL and WINNER 2005, 269-293).

⁴ Rudra (2005), for example, finds that formal welfare programs in LDCs were not originally designed to protect the needy; and increased welfare spending in globalizing LCDs is not redistributive – privileged groups are receiving a disproportional amount of the welfare benefits in LCDs. In this paper, however, I emphasize more on people's perceptions than on actual empirical findings of causation (Rudra and Haggard 2005, 1015-1049).

the attitudes of those involved; and related, (2) the institutions “should not be seen as entities that are created at one point in time” (Hall and Soskice 2001) (KITTEL and WINNER 2005, 269-293) Basically, I argue that previously enacted public policies (with respect to the welfare state regime under which people live) are more important than suggested policies (promises) in determining the possibility of whether or not the grand bargain is made, because the legacy of previously instituted policies shapes people’s perceptions of the credibility of government commitment to its promises. This paper, thus, aims to provide empirical evidence that the credibility of government promises influences welfare- and security-enhancing functions of suggested social welfare programs, thereby explaining differences in public support for trade across countries, especially between developed and less developed countries.

On a final note: government credibility, if it is proven that it matters, will shed new light on the literature on the effects of democracy (or democratization) on welfare and trade liberalization. It is a conventional wisdom in the existing theories⁵ that democracies than authoritarian regimes are more sensitive to increased vulnerability associated with trade liberalization, and thus pursue more expansive social policies to protect the vulnerable. Moreover, the recent works on the effects of regime types on trade liberalization demonstrate that democratization meaning “a movement toward majority rule with universal suffrage in contested election” changes the optimal trade policies for leaders in the direction of further trade liberalization (Milner and Kubota 2005, 107-143; Kevin O’Rourke 2007)⁶. Following the logic of the Heckscher-Ohlin and Stolper-Samuelson theorems, Milner and Kubota, for example, argue that in LDCs that are by definition characterized by lack of capital and abundance of labour, workers and the poor tend to gain from trade liberalization. They argue, as democratization enfranchises this new group of voters with preferences for lower levels of protectionism, more-democratic countries are more willing to open their markets. This paper however casts a more sceptical eye on the potential significance of such regime types – i.e., democracies vs. non-democracies. Admittedly, it should be noted that it is not actual trade policies but trade attitudes that this paper attempts to explain. In any political system there would no perfect correspondence between public preferences on any specific issue and policy outcomes. Nevertheless, it is hardly deniable that policy outcomes often mirror public preferences. At least, to make sense of Milner and Kubota’s argument, it is essential to assume that workers and the poor in LDCs have preferences for lower levels of protectionism, of which I harbour suspicion. I argue in this paper that it is government credibility that matters for offsetting economic insecurity associated with trade liberalization. If that is the case, it is hard to claim that new democracies are necessarily in a better position than their authoritarian counterparts to garner public support for trade liberalization because they are not necessarily better equipped with respect to governments’ desire and ability to provide social protection. I argue in the following sections that what matters more for shaping public perceptions of government credibility is a legacy of previously instituted social policies – i.e., people’s subjective evaluations of the type of the welfare regime they live under – than suggested but not yet implemented policies for potential trade losers because

⁵ Rudra and Haggard (2005), for example, reviewed the existing literature on the welfare state, and summarized the three theories strongly suggesting that “democracies should pursue more expansive social policies than authoritarian regimes, *ceteris paribus*” (Rudra and Haggard 2005, 1015-1049). See (Meltzer and Richard 1983, 403-418; Boix 1998; Cox 1987, 508-46).

such legacy is likely to form public perceptions of government's *desire* to provide social protection. Moreover, government's *ability* also matters; credibility in government's desire to provide protection only does not ensure pro-trade attitudes. New democracies that are often characterized by weak, fragile government institutions are not any better than their authoritarian counterparts in the two respects above.

In the following section, I will empirically test whether government credibility can build support for trade. If the public's negative evaluation of the government's desire and ability to provide social protection is positively associated with the protectionist sentiment of the country, this implies that at least in countries that are characterized by lack of government credibility, the embedded liberalism compromise does not serve as a viable solution to the political problems faced by the elected politicians who commit their countries to trade liberalization.

Empirical test: Government credibility and protectionist sentiment

Description of the data and empirical approach

The data I use is from the Asia-Europe survey (ASES) 2000. The data set provides information about individuals' attitudes toward trade. The 18 countries surveyed are: Japan, South Korea, China, Taiwan, Singapore, Malaysia, Indonesia, Thailand, and the Philippines from East and Southeast Asia, and the United Kingdom, Ireland, France, Germany, Sweden, Italy, Spain, Portugal, and Greece from Western Europe. In order to measure individual trade policy attitudes, I focus on survey responses to the following question: "Please tell me how much you agree or disagree with the following statement: [Country] should limit the import of foreign products." After deleting the "Don't know" and "NA, refused" responses, I transformed survey questions into the dependent variable *Trade Opinion* on a scale from 1 to 5. I assigned a value of 1 to respondents who answered "strongly agree" and a 5 to those who answered "strongly disagree." Higher values of *Trade Opinion* thus correspond to more pro-trade attitudes, whereas low values reflect protectionist sentiment. I also created two binary variable, labelled *Pro-trade Dummy* and *Against-trade Dummy*. *Pro-trade Dummy* is set equal to 1 for individuals opposing trade protection, and to 0 for the rest. *Against-trade Dummy* is set equal to 1 for those that favour protection and to 0 for the rest.

Table 1 presents summary statistics of *Trade Opinion*, *Pro-trade Dummy* and *Against-trade Dummy*, by country. The data set shows that protectionist sentiment runs high on average: those with protectionist sentiment (46.8%) substantially outnumber proportions of those with pro-trade attitude (29.7%) in both regions. There is a large variation in trade attitudes across countries. There are countries in both regions that have publics committed to trade – Singapore (64.4%) in Asia and Germany (52.0%) and Sweden (46.4%) in Europe. Four out of five the most protectionist countries are Asian countries: Thailand, Malaysia, Korea and Philippines.

[*Table 1* about here]

I am primarily interested in the effects of government credibility associated with the welfare state on trade attitudes. Before I present a series of empirical models highlighting different types of determinants of trade attitudes in the next section, as a first pass through the data, it is instructive to examine whether there is a systematic association between subjective evaluations of government credibility and levels of protectionism on a cross-national basis. As argued in the earlier section, government credibility has two different components: (1) trust in government's *ability* and (2) trust in its *desire* to protect people from vagaries of free market. First, I use the survey question that asks how much respondents agree or disagree with the statement that "with regard to most of the big problems we face, what the [respondent's country] government decides doesn't make much difference," as a proxy for trust in government's ability. Respondents can answer "strongly disagree," "disagree," "neither agree nor disagree," "agree," and "strongly agree." I scored these responses from 1 to 5, giving those who answered "strongly agree" a 1, and those who answered "strongly disagree" a 5. Although this question does not ask respondents' opinions specifically about their government's ability (or effectiveness) to implement social protection, it still allows us to assess how the respondents evaluate the effectiveness of their government in general – presumably, respondents evaluating negatively their government's ability to make a difference in one aspect will not make a completely different evaluation of the government's ability in other aspects. Second, to measure trust in government's desire to provide social protection, I make use of responses to the question asking respondents how proud they are of the welfare system in their country, by assuming that respondents who are proud of their welfare system feel that they are well protected by it, while those not proud feel that they are not. I assigned a value of 1 to respondents who answered "not proud at all," and 4 to those who answered "very proud," and thus, higher values of this variable reflect more positive evaluations of the country's welfare system. Presumably, the type of welfare regime people live under – e.g., conservative, liberal or social-democratic welfare state – formulates people's expectations of their government as to to what extent the government will limit the costs and distribute benefits of open markets through social welfare policies; and it is highly likely for the government to follow the similar welfare-state trajectory as instructed by the legacy of previously instituted social policies of the country. In this regard, a subjective evaluation of the country's welfare system can serve as a proxy for trust in government's desire to provide social protection.

To be able to make cross-national comparisons, I created the three variables, *Goveffect*, *Welfare*, and *Protectionism*, by producing an average of the values of each variable for each country. *Figure 1 and 2* shows the results. Does protectionist sentiment have any systematic relationship to public perception of government effectiveness on a cross-national basis? *Figure 1* shows that the answer is broadly yes. In *Figure 1* I plot protectionist sentiments against government effectiveness that I obtained on *Goveffect* across 18 countries. Several results stand out. First, as expected, there is a negative association between protectionism and the subjective evaluation of government effectiveness on a cross-national basis. In a simple cross-national OLS regression model with *Protectionism* as the dependent variable and *Goveffect* as the independent variable, the coefficient for *Goveffect* is $-.689$ with a standard error of $.265$, which is statistically significant at the 95% confidence level. This remains almost

unaffected even after I control for the impact of international economic integration,⁷ which is expected to correlate rather closely with levels of protectionism. With few exceptions, the relationship between *Goveffect* and *Protectionism* is negative and linear to a good approximation in each country, which will be covered in more detail in the next section. Second, there are other features of the pattern of association reported in *Figure 1* worth noting. Interestingly, though perhaps not surprisingly, new (Asian) democracies – e.g., Thailand, Philippines, Indonesia and South Korea – are clustered together: they in common exhibit low levels of government effectiveness and high levels of protectionism. Contrary to the new democracies, countries under authoritarian rule – e.g., China, Singapore, and Malaysia – display relatively high levels of government effectiveness. The three countries vary in terms of protectionism, but both China and Singapore for sure display relatively low levels of protectionism, compared to the new democracies above. Third, the two European countries that emerged as the most pro-trade countries – i.e., Germany and Sweden – also comprise of a group displaying strongest government effectiveness.

[*Figure 1* about here]

Figure 2 plots protectionist sentiments (*Protectionism*) alongside average subjective evaluations of the welfare system (*Welfare*). At first glance, there appears to be no association between the two variables on a cross-national basis. However, excluding less developed countries⁸ (LDCs) that have never enjoyed the privilege of extensive social welfare programs, the scatterplot reveals a strong and tight relationship between protectionist sentiment and subjective evaluations of the welfare system on a cross-national basis. For the 10 developed countries (nine European countries plus Japan) in the data set, the coefficient of *Welfare* is – .589 with a standard error of .272, which is statistically significant at the 90% confidence level. That is, the more positive the average subjective evaluation of the country's welfare system, the less protectionist a country on average. In general, people who live under conservative or social democratic welfare regime (e.g., Germany, France and Sweden) tend to be more proud of the country's welfare system than those under liberal or Mediterranean welfare regime (e.g., UK, Ireland, Italy, Portugal, and Greece). Consequently, protectionism of social democratic and conservative welfare regimes on average seems to be weaker than that of other types of welfare countries. When it comes to outliers (LDCs) I suspect that as they have never experienced extensive welfare (social security) system, a subjective evaluation of the welfare system – i.e., how proud of the country's welfare system – could measure something different, which I will discuss in more detail in the next section.

[*Figure 2* about here]

In summary, there are a few cross-national patterns reported in the two figures above worth noting. First, a subjective evaluation of government effectiveness, as a proxy for public trust in government's ability, correlates negatively with protectionist sentiment on a

⁷ To measure the impact of global economic exposure, I used the index provided by *Foreign Policy* magazine. The index indicates world rankings of eighteen countries in the two respective categories of trade and FDI by percentage of GDP. The index is available online at www.foreignpolicy.com.

⁸ I divide the countries into two groups – (1) a group of developed countries and (2) a group of less developed countries (LDCs). I include all of the European countries of the data set plus Japan in a group of developed countries, and include the rest in a group of LDCs.

cross-national basis. Second, new (Asian) democracies display relatively low levels of government effectiveness and high levels of protectionist sentiment, whereas countries under authoritarian rule display seemingly the opposite pattern. Third, pride in the country's welfare system negatively correlates with protectionist sentiment on a cross-national basis: the more proud people are of their country's welfare system, the lower the levels of average protectionist sentiment of the country. The pattern, however, is displayed only among developed countries. However, does government credibility, proxied here by subjective evaluation of government effectiveness and welfare system, and have any systematic effect on protectionist sentiment at the individual level as well? In the following sections, I will move to individual level analysis.

Government credibility model

I use *Against-trade Dummy* from the ASES data set as a dependent variable and estimate a series of probit models. The models identify government credibility as crucial to determining an individual's attitudes toward trade. As discussed above, government credibility has two components: (1) trust in government ability and (2) trust in government desire (to protect people from vagaries of the free market). First, as proxies for trust in government ability, I include the following four variables as well as government effectiveness (*Government effectiveness*) that I used in the earlier section: a subjective evaluation of government dealing with the economy (*Government dealing with the economy*); a subjective evaluation of government dealing with unemployment (*Government dealing with unemployment*); a subjective evaluation of nation's economic achievement (*Pride in nation's economic achievement*); and a subjective evaluation of government dealing with political corruption (*Government dealing with corruption*). If economic insecurity, understood to be an individual's perception of the risk of economic misfortune that mainly stems from volatile employment situation (Dominitz and Manski 1997; Mughan and Lucy 2002; Scheve and Slaughter 2004), contributes to the backlash against trade liberalization as it is often argued⁹, it is expected that people who answered that their government is dealing well with unemployment and the economy are more likely to support for trade than those who answered not. It is however worth noting that the two variables – *Government dealing with the economy and unemployment* – measure the government's ability in a relatively short time span, by which I mean that people's evaluations of such government ability can change as different governments take office one after the other or even as economy goes down (or up). On the contrary, I include the variable *Pride in nation's economic achievement* to measure government ability over a relatively long time span, assuming that respondents who are proud of their country's economic achievement feel that the government has been capable of managing the national economy. I also include a subjective evaluation of government handling political corruption. As political corruption is often viewed as constraining government ability to implement social policies, I expect this variable to be associated with protectionist sentiment. Second, as proxies for trust in government desire, I include a subjective evaluation of the nation's democracy (*Pride in the way nation's democracy works*) as well as a subjective evaluation of the nation's welfare system (*Pride in nation's welfare system*) that I used in the earlier section. As

⁹ As discussed in the earlier section, the economic openness-welfare spending nexus is based on the argument that increases in economic insecurity from trade generate demands for more generous social welfare spending to compensate losers from trade.

discussed in the earlier section, presumably regime types which people live under – with respect to both welfare system and form of government – serve as guidance for anticipating to what extent their government is willing to compensate losers from trade¹⁰.

The regression results are presented in *Table 2*. The numbers are the marginal effects of each variable, i.e., the estimated change in the probability of being protectionist given a marginal increase in the value of the relevant independent variable, holding all the other independent variables constant.

[*Table 2* about here]

Regression (1) and (3) includes only developed countries; and regression (2) and (4) includes only LDCs. Trade theory tells us that trade liberalization affects the welfare of workers and the poor differently between developed and less developed countries. The Heckscher-Ohlin theory, for example, suggests that the owners of relatively abundant factors of production benefit from trade; and thus we expect to find different determinants of trade opinions between LDCs characterized by lack of capital and abundance in low-skilled labour, on one hand and developed countries characterized by abundance in highly skilled labour and capital on the other hand. I include individual attributes in every model, and the empirical patterns found correspond to Heckscher-Ohlin theory: individual skills proxied by levels of education correlate negatively with protectionist sentiment in developed countries, but the correlation is weak and even reversed in LDCs; and union membership negatively associates with protectionist sentiment in LDCs while there is no such association in developed countries. Given the different impacts of trade liberalization on the national economy as well as the contextual differences in terms of welfare state legacy and system of government (democracy vs. authoritarian) between developed and less developed countries, I suspect that the size (or even direction) of the effects that the key variables have on protectionist sentiment also differ.

I find evidence of a strong effect of government effectiveness on protectionist sentiment, which survives all specification I have tried: both in developed and less developed countries, people are less likely to support protectionism as they evaluate their government's effectiveness more positively. Interestingly, however, a subjective evaluation of government dealing with the economy and unemployment has no impact on protectionist sentiment; whereas a positive evaluation of nation's economic achievement strongly correlates with protectionist sentiment. I suspect that this serves as evidence that government doing a good job on economy or unemployment does not garner support for trade unless it is prolonged enough to consolidate to form a positive perception of government ability in general. A positive evaluation of government dealing with political corruption associates negatively with protectionist sentiment in LDCs, but no association is found in developed countries. Given that political corruption is pervasive in most of LDCs, it is probably not surprising.

I also find evidence of a strong effect of pride in nation's welfare system on protectionist sentiment; but interestingly the association is negative in developed countries,

¹⁰ Admittedly, however, the indicators suggested above do not have clear-cut boundaries between government ability and desire. For example, a subjective evaluation of government handling political corruption can also be used as a proxy for trust in government desire as well.

while it is positive in LDCs. Both coefficients are statistically significant at the 99% confidence level. That is, those who are proud of their welfare system are less likely to be protectionist in developed countries, but more likely to be protectionist in LDCs. In LDC, pride in the country's democracy as well positively correlates with protectionist sentiment. But as shown in regression (3) and (4), the association between pride in nation's welfare system (and democracy) and protectionist sentiment in LDCs is gone once nationalism (proxied by national pride, pride in nation's political influence in the world, and pride in nation's armed force) are included, whereas it survives in developed countries. Given that most of the LDCs have never experienced expansive social welfare protection, asking respondents how proud they are of the country's welfare system may not have measured respondents' *trust in government's ability*; rather it may have simply measured how proud they are of their country in general.

Overall, the micro results confirm the significance of government credibility. Confidence in government effectiveness and economic achievement negatively associates with protectionist sentiment at the individual level; and the negative effect is strong both in developed and less developed countries. Pride in nation's welfare system also negatively associates with protectionist sentiment at least in developed countries. From these individual-level results put together with the cross-national patterns reported in the earlier section, one can infer that the embedded liberalism compromise may not be made in LDCs. As seen in *Figure 1*, new democracies are clustered together, displaying low levels of government effectiveness alongside high levels of protectionist sentiment; and I also find government credibility and protectionism are negatively correlated at the individual level. As discussed earlier, the embedded liberalism compromise is based on the premise that the people trust their government's desire and ability to cushion trade-induced insecurity. If the public has little trust in government, which is actually the case in most of the LDCs, the public would not be willing to compromise on trade liberalization policies in return for government's welfare promise. Also, unless welfare spending garners public support for trade, there is not much incentive for the government to increase welfare spending.

In fact, the core assumption of the embedded liberalism thesis is that trade liberalization increases economic insecurity; and economic insecurity in turn develops policy attitudes against trade. It is argued that government committed to trade liberalization invests in social welfare, hoping to maintain/build public support for trade liberalization policies by virtue of security-enhancing effects of social welfare. I suspect, however, that economic insecurity defined narrowly as fear of personal job loss¹¹ may not be the main determinant of trade attitudes. It may just be that people are moved by their perception that their country as a whole will have a harder time finding jobs – that is, differing degrees of sociotropic economic insecurity may be a better predictor of trade attitudes. It may also be that uncertainty on economic performance as well as economic insecurity develops policy attitudes against trade. Or even unspecified worries about the country may contribute to magnifying protectionist sentiment. If that is the case, this will strengthen the significance of government credibility. If it is the case that personal (egocentric) economic insecurity is the key to shaping policy attitudes against trade, offering compensation to losers from trade at

¹¹ Mughan and Lacy (2002) argue that it is the norm in studies of economic insecurity to define insecurity simply in terms of fear of job loss, by citing Witte (1999) and Dominitz and Manski (1997) (De Witte 1999, 155; Dominitz and Manski 1997, 261-287; Mughan and Lacy 2002, 513-533).

time t could be able to garner support for trade at time $t + 1$. If sociotropic insecurity also matters, however, welfare compensation at time t may have no discernable impact on trade attitudes at time $t + 1$, because such insecurity cannot be easily mitigated in a short time frame by material compensation directed to losers from trade. What will shape trade attitudes is now the level of government credibility, which can only be built over a long period of time, because credibility is a matter of perception. It does not matter much whether it is trade liberalization that caused such insecurity; what matters is that unspecified worries about the country itself, national economy, or even national politics shape policy attitudes against trade.

Table 3 confirms the significance of sociotropic insecurity. Sociotropic insecurity, including worry about your country, worry about the country's economy and unemployment, and worry about the country's corruption, is a highly significant determinant of protectionist sentiment. Sociotropic insecurity matters more than egocentric insecurity that boils down to the question "how worried are you about your work situation": egocentric insecurity has only minor impact on protectionist sentiment in developed countries, and almost no impact on protectionist sentiment in LDCs.

[Table 3 about here]

The importance of sociotropic insecurity relative to egocentric economic insecurity in explaining protectionist sentiment strengthens the argument that *perceptions*, more specifically, perceptions of government commitment to cushion miscellaneous insecurities that people already have or that people think trade might breed, are the key to garnering public support for trade. This implies that only when people view their government as credible so that they feel they are well protected by the government, would they be willing to compromise on further trade liberalization. Government welfare spending would have no discernable impact on trade attitudes in countries that lack such credibility.

Conclusion

The embedded liberalism thesis involves a grand bargain whereby the public agrees to open markets and a government in exchange promises to moderate the volatility of open markets and provide social safety nets as compensation. For this grand bargain to be enacted and sustained, the public should be willing to compromise on trade liberalization policies in return for the government's welfare promise. I paid attention to a problem of credible commitment that is likely to arise here, because trade liberalization and a government's compensation often involve intertemporal/non-simultaneous exchanges between the government and the public. Given the temporal feature of the grand bargain, people are likely to compromise only when the government's promises to cushion the adverse domestic effects of open markets are viewed as credible. If viewed as not credible, the grand bargain would not be enacted, let alone sustained. In LDCs that have never enjoyed the privilege of expansive social protection and that are often characterized by lack of effective government institutions, security-enhancing functions of government promises are not likely to work at the same level as they do in countries with an effective government and a long welfare state tradition.

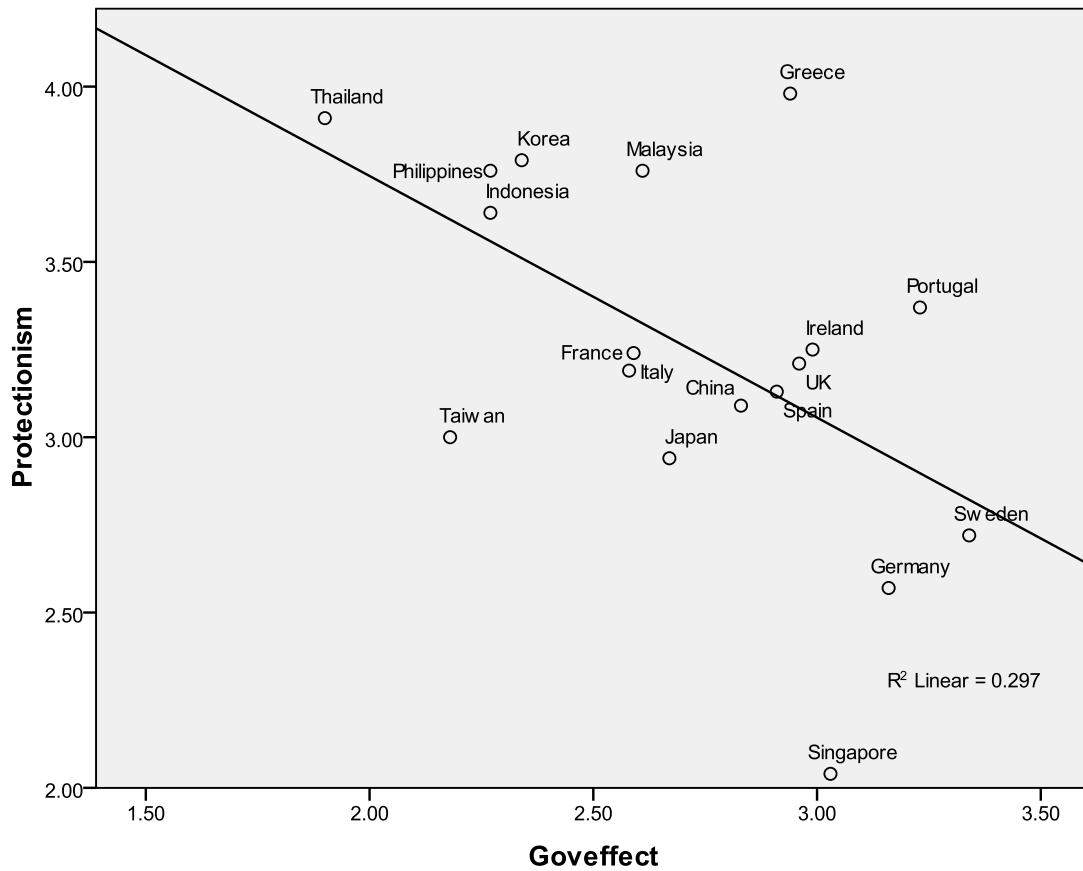
The empirical tests confirm the significance of government credibility. I find evidence of a strong effect of government credibility on protectionist sentiment both at the cross-national and individual level of analysis. I also find that not egocentric economic insecurity but sociotropic insecurity is the key to policy attitudes against trade. The significance of sociotropic insecurity as a micro-foundation of the embedded liberalism thesis strengthens the argument that perception matters: it is highly likely that material compensation itself that is directed toward losers from trade has no discernable security-enhancing functions in countries where there is little trust in government. Government credibility matters, but it takes long time to develop. The relationship between trade and welfare state, thus, can only be long-term and historically contingent.

Table 1. Summary data on individual attitudes toward trade (Asia-Europe Survey 2001)

Country	Trade Opinion						Average Trade Opinion		Pro-Trade Dummy		Against-Trade Dummy	
	Strongly Agree (1)	Agree (2)	Neither agree nor disagree (3)	Disagree (4)	Strongly disagree (5)	I don't know (6) NA, refused (7)						
Japan	.046	.159	.466	.219	.045	.065	3.06	4	.282	12	.220	17
Korea	.302	.350	.198	.106	.032	.013	2.21	15	.139	17	.660	4
China	.137	.310	.128	.345	.073	.007	2.91	6	.421	4	.450	12
Taiwan	.083	.252	.235	.331	.043	.056	3.00	5	.396	5	.355	15
Singapore	.026	.158	.158	.455	.164	.039	3.60	1	.644	1	.191	18
Malaysia	.218	.464	.124	.115	.032	.047	2.24	16	.154	15	.716	3
Indonesia	.222	.312	.236	.129	.018	.084	2.36	13	.160	14	.582	6
Thailand	.296	.467	.071	.130	.017	.021	2.09	17	.150	16	.777	1
Philippines	.350	.294	.151	.158	.041	.006	2.24	14	.200	13	.648	5
United Kingdom	.132	.315	.214	.246	.063	.031	2.79	9	.318	8	.461	11
Ireland	.127	.352	.168	.234	.068	.050	2.75	11	.318	9	.505	8
France	.187	.281	.178	.193	.136	.025	2.81	8	.337	7	.480	9
Germany	.056	.169	.238	.308	.193	.036	3.43	2	.520	2	.233	16
Sweden	.088	.257	.172	.192	.256	.036	3.28	3	.464	3	.358	14
Italy	.194	.271	.200	.190	.119	.027	2.76	10	.318	10	.477	10
Spain	.100	.299	.209	.242	.068	.082	2.87	7	.338	6	.434	13
Portugal	.211	.291	.165	.216	.071	.046	2.63	12	.301	11	.526	7
Greece	.353	.334	.168	.077	.017	.052	2.02	18	.098	18	.724	2
Mean	.173	.295	.195	.216	.081	.040	2.73		.297		.468	
Standard deviation	.378	.456	.396	.411	.272	.197	1.23		.457		.499	

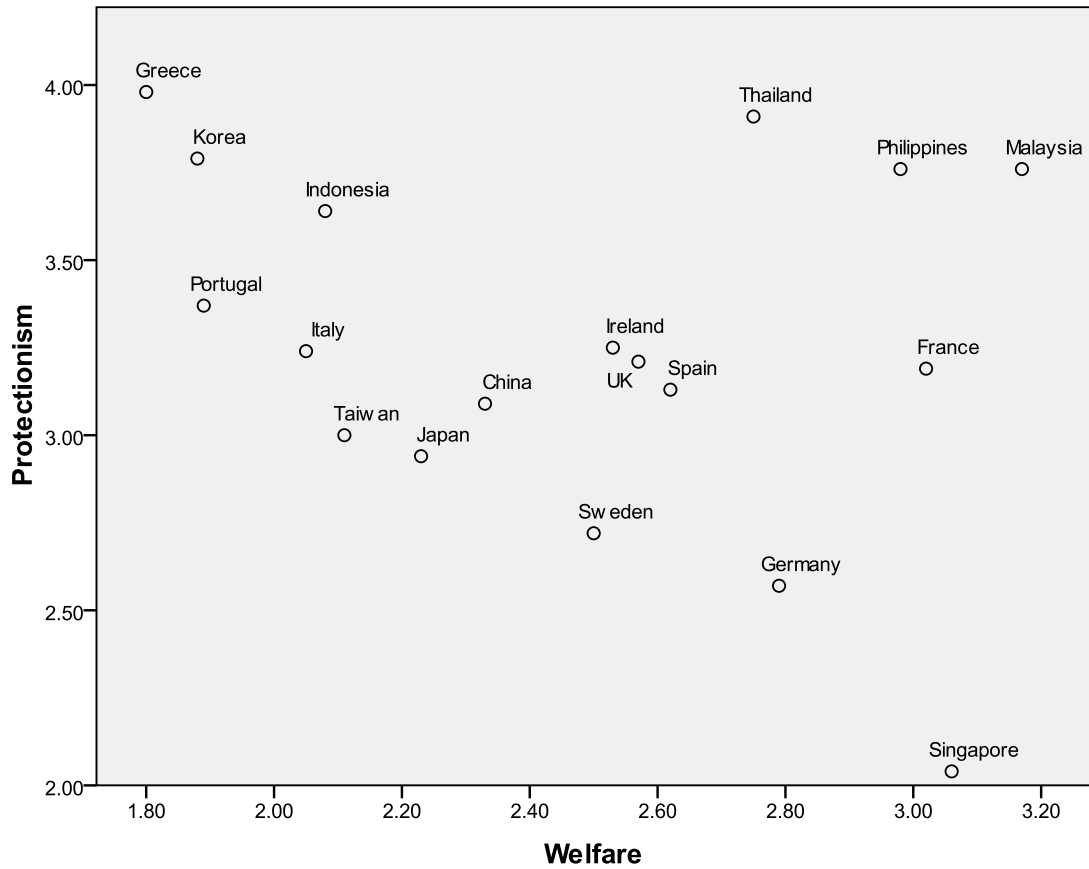
Notes: Trade Opinion gives responses to the following question: "Please tell me how much you agree or disagree with the following statements: [Country] should limit the import of foreign products." Average Trade Opinion is the average of Trade Opinion excluding I don't know (6) and NA (7) answers. The second column of each variable gives the ranking of countries according to that variable.

Figure 1. Scatterplot of protectionism and subjective evaluation of government effectiveness



Notes: The variable, *Protectionism*, on Y axis indicates average values of protectionism on the scale from 1 to 5. High values of *Protectionism* above reflect average support for protectionism of the countries indicated, whereas low values reflect pro-trade attitudes. The variable, *Goveffect*, on X axis indicates average values of subjective evaluations of government effectiveness on a scale from 1 to 5. The points presented above are national averages: for example, Singapore ranked the lowest in *Protectionism* with a national average of 2.04 and ranked the fourth in *Goveffect* with an average of 3.03 after Sweden, Portugal, and Germany.

Figure 2. Scatterplot of protectionism and subjective evaluation of welfare system



Notes: The scatterplot shows a relationship between protectionist sentiment and subjective evaluation of the country's welfare system. The variable, *Welfare*, on X axis reports the average values of respondents' subjective evaluations of their country's welfare system on a scale from 1 to 4. The higher the value, the more proud the respondents are of their welfare system. The variable *Protectionism* on Y axis is coded the same as that of Figure 1. The points presented above are national averages: for example, Singapore ranked the lowest in *Protectionism* with a national average of 2.04 and ranked the second in *Welfare* with an average of 3.06 after Malaysia which displays the highest average *Welfare* score (3.17).

Table 2. Government credibility model

Probit	Model 1		Model 2	
	Developed countries	LDCs	Developed countries	LDCs
	(1)	(2)	(3)	(4)
Dependent variable	Against-Trade Dummy (<i>Protectionism</i>)			
<i>Trust in government ability</i>				
Government effectiveness	-.121 .015**	-.151 .023**	-.106 .016**	-.148 .024**
Government dealing with the economy	.003 .027	.020 .037	.011 .030	-.021 .039
Government dealing with unemployment	-.007 .025	-.058 .088	-.004 .027	-.063 .036+
Pride in nation's economic achievement	-.114 .024**	-.198 .031**	-.179 .027**	-.210 .033**
Government dealing with corruption	.052 .024*	-.200 .036**	.037 .026	-.177 .038**
<i>* Not asked in China</i>				
<i>Trust in government desire</i>				
Pride in nation's welfare system	-.100 .021**	.142 .032**	-.095 .023**	.046 .036
Pride in the way nation's democracy works	.018 .021	.113 .031**	-.067 .025**	.020 .035
<i>* Not asked in China</i>				
<i>Nationalism</i>				
National pride	-	-	.294 .024**	.276 .036**
Pride in nation's world political influence	-	-	-.039 .027	.013 .035
Pride in nation's armed forces	-	-	.195 .021**	.167 .033**
<i>* Not asked in China</i>				
<i>Individual attributes</i>				
Education	-.028 .004**	-.002 .006	-.024 .004**	.002 .007
Subjective household income	-.061 .024*	.086 .034*	-.042 .026	.053 .035
Union membership (Dummy)	-.008 .037	-.171 .062**	.029 .040	-.078 .066
Public sector employment (Dummy)	.045 .039	.122 .063+	.014 .041	.047 .066
Age	.008 .006	.011 .009	.004 .006	.014 .010
Gender (female)	.127 .034**	.146 .047**	.151 .036**	.132 .049**
Number of observations	10222	8031	10222	8031
-2 Log Likelihood	8105.701	4488.890	6990.850	4110.329

Notes: The table contains the estimated marginal effect on the probability of being protectionist, given an increase in the value of the relevant regressor, holding all other variables constant. The standard errors are presented under each marginal effect. ** significant at 1%; * significant at 5%, + significant at 10%. Question wording for each variable is as follows: *National pride*: "Overall, how proud are you to be [Japanese]?"; *Pride in nation's world political influence*: "How proud or not proud are you of [Japan's] political influence in the world?"; *Pride in nation's armed forces*: "How proud or not proud are you of [Japan's] armed forces? The variables are coded as follows: 1 = not proud at all, 2 = not so proud, 3 = somewhat proud, 4 = very proud. *Education* is coded as follows: 1 = didn't receive education, 2 = 1-5 years, 3 = 6-10 years, 4 = 11-15 years, 5 = 16-20 years, 6 = 21-25 years, 7 = 26 years or over, 8 = no answer. *Subjective household income* refers to the answers to the question of "how would you describe your household's living standards?" and it is coded as follows: 1 = high, 2 = relatively high, 3 = average, 4 = relatively low, 5 = low, and 6 = no answer. *Union membership* equals 1 if the respondent is a member of trade union, 0 if he is not. *Public sector employment* equals 1 if the respondent is employed in the state sector, 0 if he is not. *Age* is coded as follows: 1 = 18-19 years, 2 = 20-24, 3 = 25-39, 4 = 40-44, 5 = 45-49, 6 = 50-54, 7 = 55-59, 8 = 60-64, 9 = 65-69, ..., 13 = 75-79. Gender equals to 1 if the respondent is female, otherwise 0.

Table 3. Models of insecurity

Probit	Model 1		Model 2	
	Developed countries	LDCs	Developed countries	LDCs
Dependent variable	Against-Trade Dummy (<i>Protectionism</i>)			
<i>Egocentric Insecurity</i>				
Worry about your work situation	.052 .023*	-.005 .032	.064 .026*	-.019 .034
<i>Sociotropic Insecurity</i>				
Worry about your country	.102 .025**	.080 .035*	.081 .028**	.068 .037+
Worry about the country's economy	.137 .028**	.100 .044*	.109 .033**	.084 .047+
Worry about the country's unemployment	.004 .026	.165 .041**	.013 .030	.170 .045**
Worry about the country's corruption	.075 .025**	.293 .038**	.084 .030**	.205 .044**
<i>* Not asked in China</i>				
<i>Trust in government ability</i>				
Government effectiveness	-	-	-.109 .015**	-.114 .024**
Government dealing with the economy	-	-	.045 .029	.043 .039
Government dealing with unemployment	-	-	.030 .028	.015 .037
Pride in nation's economic achievement	-	-	-.111 .024**	-.177 .031**
Government dealing with corruption	-	-	.068 .027*	-.110 .039**
<i>* Not asked in China</i>				
<i>Trust in government desire</i>				
Pride in nation's welfare system	-	-	-.074 .022**	.139 .033**
Pride in the way nation's democracy works	-	-	.015 .022	.095 .031**
<i>* Not asked in China</i>				
<i>Individual attributes</i>				
Years of education	-.025 .004**	-.012 .006*	-.028 .004**	-.006 .007
Subjective household income	-.044 .022*	.070 .033*	-.073 .025**	.057 .035
Union member	.051 .035	-.195 .061**	.024 .038	-.156 .064*
Public sector employment	.060 .037	.163 .062**	.052 .040	.137 .065*
Age	.012 .005*	.006 .009	.009 .006	.014 .010
Gender (female)	.114 .031**	.163 .045**	.133 .035**	.155 .048**
Number of observations	10222	8031	10222	8031
-2 Log Likelihood	8949.112	4502.483	7602.781	4271.493

Notes: ** significant at 1%; * significant at 5%, + significant at 10%. Question wording for each variable is as follows: *Worry about your work situation*: "How worried are you about your work situation?"; *Worry about your country*: "How worried are you about your country?"; *Worry about the country's economy*: "How worried about the economy?"; *Worry about unemployment*: "How worried about unemployment?"; and *Worry about corruption*: "How worried about political corruption?" The variables are coded as follows: 0 = not worried at all, 1 = somewhat worried, 2 = very worried.

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