

2. *The Social Foundations of Openness*

Outline

2.1 *The Conditions for Postwar Openness*

- *The puzzle (and the dawn of IPE)*
- *The market distribution thesis*
- *The compensation thesis*

2.2 *Is Democracy a Condition?*

- *The logic*
 - *Is democracy a condition for distribution?*
 - *Is democracy a condition for compensation?*
- *The implications*
 - *Trade liberalization in manufacturing among advanced countries*
- *Further steps*
 - *Beyond social foundations*
 - *Beyond historical contingency and neo-corporatism*

2. The Social Foundations of Openness

The Theoretical Puzzle

- *What is Unique about Postwar Openness ?*
 - *Comparison with the interwar and pre-WWI years (→ Slide 3)*
 - *The dawn of IPE studies*
 - *Realism and Hegemonic Stabilization Theory*
 - *Systemic approach and the security dilemma*
 - *Alliance structure, polarity, and economic openness*
 - *⇔ Embedded Liberalism*
- *Embedded Liberalism*
 - *The argument*
 - *Economic openness through multilateral agreement through international organizations and embedded in social norms (⇔ precedes democratic peace)*
 - *What social norms? = embedded liberalism*
 - *Social stability and security ← the incorporation of organized labor*
 - *The implication*
 - *The importance of domestic norms and international regimes*
 - *The remaining puzzle*
 - *A result of historical contingency or democratic politics?*

2. The Social Foundations of Openness

Distribution and compensation

- *Why are distribution and compensation important?*
 - *Domestic alliance for freer trade*
 - *Who are the likely opponents?*
- *What affects distribution?*
 - *The evidence*

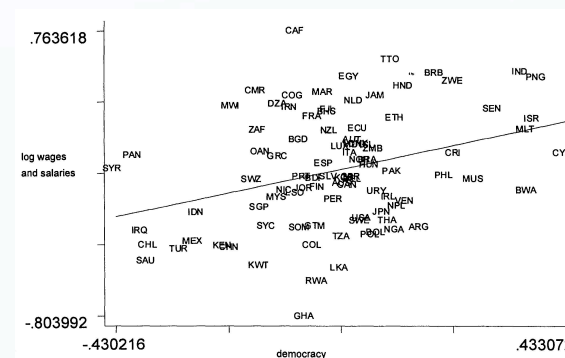


FIGURE I
Partial Scatter Plot of Log Wages against Democracy (based on column (1) of Table II; the axes represent components orthogonal to other regressors)

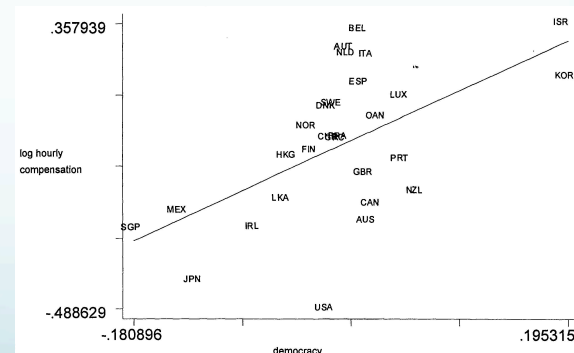


FIGURE II
Partial Scatter Plot of Log Hourly Compensation against Democracy, BLS sample (based on column (1) of Table III; the axes represent components orthogonal to other regressors)

2. The Social Foundations of Openness Distribution

- Are democracies more distributive?
 - The evidence
 - Cross-sectional
 - Regime transitions

TABLE VI
CONSEQUENCES OF TRANSITIONS IN POLITICAL REGIME

Year	Country	Factor share of labor (manuf.)	
		Pretransition	Posttransition
A. Transitions from democracy to autocracy			
1973	Chile	0.24	0.13
1980	Turkey	0.38	0.25
1976	Argentina	0.31	0.19
1964	Brazil	0.26	0.19
	Mean	0.30	0.19
B. Transitions from autocracy to democracy			
1974	Greece	0.33	0.40
1974	Portugal	0.40	0.58
1975	Spain	0.51	0.58
1989	Chile	0.15	0.17
1989	Hungary	0.35	0.42
1983	Turkey	0.27	0.20
1983	Argentina	0.19	0.20
1985	Brazil	0.22	0.20
	Mean	0.30	0.34

The factor share of labor refers to the ratio of average wages and salaries to MVA per worker, or the wage bill divided by value added in manufacturing. Pre- and postvalues are calculated using up to three observations prior to and following the year of transition indicated.

TABLE IV
DEMOCRACY AND WAGES: PANEL RESULTS USING WBLMDB/UNIDO DATA (1960–1994)

Democracy	Log wages (manuf.)				Log factor share of labor (manuf.)			
	OLS (1)	Fixed effects (2)	OLS (3)	Fixed effects (4)	OLS (5)	Fixed effects (6)	OLS (7)	Fixed effects (8)
Freedom House index	0.28* (0.06)	0.15** (0.07)			0.41* (0.07)	0.14** (0.07)		
Polity III index			0.16* (0.04)	0.12* (0.04)			0.20* (0.04)	0.11** (0.05)
Log MVA/worker	0.77* (0.03)	0.75* (0.03)	0.78* (0.03)	0.74* (0.03)				
Log GDP/cap.	0.27* (0.03)	0.34* (0.06)	0.23* (0.03)	0.34* (0.05)	0.16* (0.03)	0.20* (0.06)	0.13* (0.03)	0.17* (0.05)
Log price level	0.30* (0.06)	0.20* (0.05)	0.27* (0.05)	0.26* (0.04)	0.12** (0.05)	0.09*** (0.05)	0.12* (0.04)	0.12* (0.04)
Period dummies	yes	yes	yes	yes	yes	yes	yes	yes
Country dummies	no	yes	no	yes	no	yes	no	yes
N	441	441	548	548	441	441	548	548
R ²	0.94	0.99	0.95	0.98	0.43	0.87	0.44	0.83

Estimated using five-year averages covering 1960–1964, 1965–1969, 1970–1974, 1975–1979, 1980–1984, 1985–1989, and 1990–1994. Regressions using Freedom House index do not cover 1960–1964 and 1965–1969. OLS regressions include a constant term and dummies for East Asia, Latin America, sub-Saharan Africa, socialist countries, and OECD members (coefficient estimates not shown). Robust standard errors are reported in parentheses for OLS regressions. Levels of statistical significance are indicated by asterisks: * 99 percent; ** 95 percent; *** 90 percent.

TABLE V
DEMOCRACY AND WAGES: PANEL RESULTS USING BLS DATA (1975–1994)

Democracy	Dependent variable: log hourly compensation costs for production workers in manufacturing			
	OLS (1)	Fixed effects (2)	OLS (3)	Fixed effects (4)
Freedom House index	0.97* (0.21)	0.75* (0.19)		
Polity III index			0.44* (0.11)	0.40* (0.15)
Log MVA/worker	0.42* (0.06)	0.60* (0.11)	0.46* (0.07)	0.70* (0.11)
Log GDP/cap.	0.53* (0.07)	0.44* (0.16)	0.56* (0.09)	0.34*** (0.19)
Log price level	0.60* (0.09)	0.16 (0.11)	0.53* (0.10)	0.16 (0.11)
Period dummies	yes	yes	yes	yes
Country dummies	no	yes	no	yes
N	106	106	105	105
R ²	0.97	0.99	0.97	0.99

Estimated using four five-year averages covering 1975–1979, 1980–1984, 1985–1989, and 1990–1994. OLS regressions include a constant term and dummies for East Asia and OECD members (coefficient estimates not shown). Robust standard errors are reported in parentheses in columns (1) and (3). Levels of statistical significance are indicated by asterisks: * 99 percent; ** 95 percent; *** 90 percent.

2. The Social Foundations of Openness

The market distribution thesis

- Why are democracies more distributive?
 - Labor rights?
 - Union power?
 - ➔ neo-corporatist theory
 - Power resource theory
 - Calmfors-Driffill model
 - Export cross-class alliance
 - Political competition

The empirical problem

- Democracy or within democracy?
 - Historical contingency problem, again!

TABLE VII
TESTS OF SOME POSSIBLE CHANNELS OF CAUSATION FROM DEMOCRACY TO
MANUFACTURING WAGES

	Bench- mark	Rule of law	Political instability	Worker bargaining/rights				Political competition/ participation			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
democracy (Freedom House)	0.60*	0.43**	0.73*	0.64**	0.59*	0.61*	1.58*	1.56*			
	(0.16)	(0.21)	(0.23)	(0.24)	(0.21)	(0.18)	(0.29)	(0.25)			
ICRG index		0.01 (0.03)									
bureaucratic efficiency			-0.01 (0.03)								
pinstab				0.04 (0.45)							
unionization ratio					-0.16 (0.21)		0.44*** (0.21)				
basic worker rights						0.00 (0.03)		0.11* (0.02)			
political rights									1.46** (0.63)		
civil liberties									0.31 (0.55)		
competitiveness of political participation										0.57** (0.28)	0.54* (0.17)
competitiveness of executive recruitment										-0.38 (0.27)	
openness of executive recruitment										0.50* (0.16)	
constraints on the chief executive										0.10 (0.27)	
N	93	80	59	60	53	92	27	27	27	89	89
Root MSE	0.31	0.30	0.31	0.36	0.21	0.32	0.20	0.14	0.21	0.30	0.31
R ²	0.93	0.94	0.94	0.91	0.97	0.93	0.93	0.98	0.97	0.94	0.93

All regressions (except those in columns (8)–(11)) use WBLMDB/UNIDO wage data for 1985–1989 and include a constant term, log MVA per worker, log per capita GDP, log price level and dummies for East Asia, Latin America, sub-Saharan Africa, socialist countries, and OECD members (coefficient estimates not shown). Regressions in columns (8)–(11) use BLS data for 1990–1994. Robust standard errors are reported in parentheses. Levels of statistical significance are indicated by asterisks: * 99 percent; ** 95 percent; *** 90 percent.

2. The Social Foundations of Openness

The Compensation Thesis

- Does openness increase compensation?
 - The evidence
 - The reason
 - Risk \leftarrow volatility and vulnerability
 - Are the spending results corroborative?
 - Why would political leaders compensate risk?

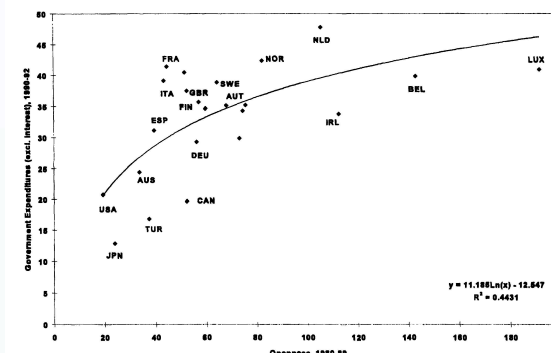


FIG. 1.—Relationship between openness and government expenditures

TABLE 1

OPENNESS AND GOVERNMENT SPENDING

INDEPENDENT VARIABLE	DEPENDENT VARIABLE					
	Log CGAVG9092 (1)	Log CGAVG8589 (2)	Log GIAVG9092 (3)	Log GIAVG8589 (4)	DGOV6092 (5)	DOPEN6092 (6)
Constant	3.289* (.536)	3.786* (.383)	-1.778*** (.990)	-4.708 (2.872)	6.426 (.936)	4.439 (.852)
Log GDP per capita	-.030 (.084)	-.105*** (.063)	-.413* (.143)	-.013 (.448)	-.151 (.133)	-.194 (.121)
Log dependency ratio	.642* (.241)	.630* (.193)	.372 (.499)	-.304 (1.457)	.387 (.388)	.146 (.353)
Log urbanization	-.203** (.093)	-.136*** (.075)	-.006 (.185)	-.556 (.537)	-.381* (.123)	.080 (.112)
Socialist	.169 (.130)	.092 (.100)	-.559 (.413)	-1.631*** (.909)	.924* (.227)	.260 (.207)
OECD	-.007 (.144)	-.014 (.122)	-.051 (.246)	-.080 (.851)	.040 (.254)	.384 (.231)
Latin America	-.171 (.113)	-.218** (.094)	-.564** (.221)	-.122 (.661)	-.072 (.191)	-.041 (.174)
East Asia	-.206 (.140)	-.338** (.130)	-.193 (.267)	-.206 (.913)	-.693 (.228)	.836 (.208)
Sub-Saharan Africa	-.107 (.118)	-.239** (.101)	-.161 (.232)	.002 (.732)	-.100 (.194)	.041 (.177)
Log CGAVG6064					-1.308* (.119)	-.019 (.108)
Log OPENAVG8089	.223* (.064)		.534* (.134)			
Log OPENAVG7584		.205* (.057)		.835** (.401)		
Log OPENAVG6064					.272* (.094)	-.510* (.086)
Adjusted R ²	.428	.458	.456	.013	.664	.360
Standard error	.317	.313	.558	1.931	.512	.466
Observations	103	125	75	98	99	99

* Significant at the 99 percent level.
 ** Significant at the 95 percent level.
 *** Significant at the 90 percent level.

TABLE 2
OPENNESS AND GOVERNMENT EXPENDITURES BY FUNCTIONAL CATEGORY (1985-89)

INDEPENDENT VARIABLE	DEPENDENT VARIABLE (as a Percentage of GDP)									
	All Government Spending (Excluding "Other")	Public Services	Defense	Education	Health	Social Security and Welfare	Housing	Culture etc.	Economic Affairs and Services	Other (Including Interest Payments)
Log OPENAVG7584	.300* (.091)	.397* (.145)	.267*** (.154)	.532* (.142)	.349** (.174)	.273 (.292)	.616* (.225)	.618* (.240)	.496* (.111)	.097 (.184)
Observations	81	83	82	84	84	78	81	81	83	81
Adjusted R ²	.244	.132	.154	.085	.099	.322	.127	.079	.333	.120

NOTE.—Other regressors not shown in the table: constant, log GDP585, log DEPEND90, log URBAN90, SOC, OECD, LAAM, ASIAE, and SAFRICA.
 * Significant at the 99 percent level.
 ** Significant at the 95 percent level.
 *** Significant at the 90 percent level.

2. The Social Foundations of Openness

The micro foundations of the compensation thesis

- Individual Data
 - Who are protectionists?
 - Does compensation have an effect?
 - What spending items?

How much do you agree or disagree with the following statement: (Respondent's Country) should limit the import of foreign products in order to protect its national economy.

1. Agree strongly
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Disagree strongly

TABLE 1. Models of individual support for trade

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
TRADABLE	-.281*** (.080)	-.239*** (.081)	-.233*** (.085)	-.248** (.097)	-.241*** (.080)	-.220*** (.082)
EXPORTS	.234*** (.087)	.211** (.087)	.248*** (.049)	.171*** (.052)	.174*** (.050)	.236*** (.050)
IMPORTS	-.052* (.029)	-.049* (.028)	-.067*** (.024)	-.030** (.014)	-.027** (.012)	-.063*** (.022)
EDUCATION	.145*** (.032)	.160*** (.030)	.117*** (.025)	.142*** (.021)	.150*** (.023)	.138*** (.026)
INCOME	.282*** (.047)	.138*** (.042)	.367*** (.057)	.231*** (.037)	.165*** (.038)	.177*** (.045)
MALE	-	-	.284*** (.048)	.268*** (.049)	.246*** (.046)	.250*** (.045)
AGE	-	-	-.002* (.001)	-.002 (.001)	-.002 (.001)	-.002* (.001)
SINGLE	-	-	.152*** (.058)	.081** (.036)	.031 (.040)	.039 (.028)
UNEMPLOYED	-	-	-.226** (.096)	-.198** (.091)	-.201** (.079)	-.240*** (.078)
IDEOLOGY	-	-	.045 (.031)	.072** (.030)	.085*** (.025)	.072** (.032)
RELIGIOUS	-	-	-.024 (.079)	-.130** (.066)	-.139** (.062)	-.095 (.069)
NATIONALISM	-	-	-.279*** (.050)	-.260*** (.035)	-.277*** (.033)	-.291*** (.040)
NRR	.768** (.361)	-	.871** (.367)	.597*** (.186)	-	-
ALM	-	.043*** (.009)	-	-	-	.046*** (.008)
SOCIAL SECURITY	-	-	-	-	.097*** (.023)	-
Fixed-country effects	no	no	no	yes	yes	no
Observations	8768	9780	4975	4975	5619	5772
Log likelihood	-12469.4	-13759.0	-6724.8	-6595.0	-7397.8	-7683.5
Pseudo R ²	.029	0.034	.059	.078	.077	.066

Note: Robust standard errors are in parentheses. Respondents are clustered by country. ALM = active labor market; NRR = net replacement rate. *** significant at 1%; ** significant at 5%; * significant at 10%.

2. The Social Foundations of Openness

The micro foundations of the compensation thesis

- Individual Data
 - Why the decline in compensatory spending?

TABLE 3. Imports, deindustrialization, and government spending

Variables	GOVCON		SOCBEN		NRR	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
LAGGED DV	.954*** (.030)	.914*** (.029)	.972*** (.034)	.940*** (.034)	.781*** (.063)	.669*** (.068)
IMPORTS	1.329*** (.372)	2.106*** (.487)	1.772*** (.638)	2.560*** (.667)	8.566*** (1.708)	28.927* (15.266)
DEINDUSTRIALIZATION	.084* (.046)	.066 (.053)	.168** (.084)	.131* (.078)	—	3.711 (2.219)
imports × DEINDUSTRIALIZATION	-.013*** (.004)	-.011** (.004)	-.019** (.008)	-.015** (.007)	-.041*** (.013)	-.387* (.203)
EXPORTS	—	-1.747*** (.372)	—	-1.760*** (.466)	—	.172 (2.984)
RGDP PER CAPITA	—	2.272*** (.465)	—	1.238*** (.375)	—	21.763*** (6.472)
OLD AGE	—	-.054 (.035)	—	.052 (.035)	—	-.813** (.390)
LEFT GOVERNMENT	—	.001 (.001)	—	-.000 (.001)	—	.017 (.012)
UNION DENSITY	—	.016*** (.005)	—	.013** (.007)	—	.047 (.158)
R ²	.976	.979	.982	.984	.962	.966
Joint Wald test	17.77***	33.46***	12.35***	31.00***	25.70***	11.23**
Observations	639	599	575	535	280	262
Number of countries	17	17	17	17	17	17

Note: Panel-corrected standard errors are in parentheses. GOVCON = government consumption; NRR = net replacement rate; RGDP = real gross domestic product; SOCBEN = social benefits. *** significant at 1%; ** significant at 5%; * significant at 10%.

2. The Social Foundations of Openness

Discussion

- *Is democracy a condition for openness?*
 - *Questions*
 - *Is democracy a condition for distribution?*
 - *Is democracy a condition for compensation?*
 - *The implications*
 - *Trade liberalization in manufacturing among advanced countries*
 - *Is cuts in compensation related to shifts in trade policy?*
 - *Tariff reduction at GATT → Market opening by FTAs*
- *Next step*
 - *Beyond social foundations*
 - *Beyond historical contingency and neo-corporatism*
 - *Whether democratic politics ensures openness*