Veto Players, Globalization and the Redistributive Capacity of the State: A Panel Study of 15 OECD Countries

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ABSTRACT

Globalization is said to restrict severely the state’s capacity to fulfill its welfare function in advanced industrial societies. This paper tests empirically the redistributive capacity of the state operationalized as the difference in percent of households who live below 50% of the median income in their respective country before taxes and transfers and after taxes and transfers, based on the latest Luxembourg Income Study data. Besides globalization, specific sets of domestic political institutions predictably and systematically affect the redistributive capacity of the state: what is termed ‘collective veto points’ buoy redistribution by the state, while ‘competitive veto points’ have the opposite effect. Partisan coloration is introduced as a control variable which, surprisingly, does not affect this critical function of the welfare state. The research design is a cross-sectionally dominant panel design (N=15, t=2). This study finds evidence that globalization and collective veto points both positively affect the redistributive capacity of the state while the converse is true for competitive veto points.

‘There is the alarming prospect that globalization will eventually emasculate democratic choice’ (Gøsta Esping-Andersen, 1996).

‘... consensus democracy may be considered more democratic than majoritarian democracy ...’ (Arend Lijphart, 1999).

How do the two forces of globalization and domestic political institutions affect the redistributive capacity of the state? Globalization, so the argument goes, is increasingly circumscribing the autonomy of the modern state, leading to what some observers call ‘neo-liberal convergence’. However, domestic political institutions mediate and filter these pressures of globalization, creating nation-specific, idiosyncratic outcomes despite globalization. The purpose of this article, is to examine how these two powerful forces, globalization and domestic political
institutions, affect a central tool of the modern state: its ability to redistribute incomes and thus, the degree to which citizens are capable of taking part in the political process.

The definition of ‘redistributive capacity of the state’ and the explanandum of this article then, is the percent difference between pre-tax/pre-transfer income and post-tax/post-transfer income of households whose disposable income is less than 50 percent of the median income. Thus, this article examines the change in percent between the number of households who make less than 50% of the median income before taxes and transfers and the number of households who make less than 50% of the median income after taxes and transfers. ‘Redistributive capacity of the state’ thus captures the varying capacity of states by means of taxation and transfer payments to affect the number of households who live in poverty (defined as the percentage of households who live below 50% of the median income of the respective country).

This study uses a panel design of fifteen countries (Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, United Kingdom, and the United States) at two different time points: the first of which occurs roughly between the late 1970s and the middle 1980s and the second roughly between the late 1980s and the middle 1990s.

Since the early 1990s a veritable cottage industry has sprung up arguing the decline of national sovereignty as a result of the homogenizing forces of international capital (Strange, 1995; Schmidt 1995; Kurzer 1993, Cerny 1994, 1995; Cable 1995; Rodrik 1997, Ohmae 1995, and others). According to this view, cross border flows of trade, foreign direct investments, people, and particularly finance capital, have increased to such magnitudes that the nation state is said to lose its ability to meaningfully respond to citizen’s demands through the crafting of policies. Globalization, so the argument goes, is the death knell of the state since its Diktat will leave no room for any policies not designed to maximize economic efficiency, such as welfare policies, national styles of regulation, industrial policies, collective bargaining schemes, or nation specific workplace arrangements.

There is no gainsaying that globalization is occurring – by now, most observers are familiar with the various empirical manifestations of globalization such as dramatic increases in trade, improvements in transportation technology, large migration flows, dramatic drops in capital controls and the corresponding increase in capital mobility, quantum leaps in communication and transportation technology, and last but not least, the indefatigable work of international organizations such as the World Trade Organization dedicated to eradicate tariff and non-tariff barriers to international trade.
However, as these forces of globalization reach the national shores, they do not have identical consequences in every country. This article contends that whatever happens in the international arena will be filtered and refracted through domestic political institutions – and since they are vastly different, it is only prudent not to expect identical outcomes. This is not to say that ‘institutions’ are the only thing that differs between nations. Obviously, culture, historical experiences, structural constraints, and a multitude of other factors impinge on the consequences of globalization and are dealt with in idiosyncratic ways, leading to idiosyncratic outcomes. Thus, as of this moment, we are far away from ‘neo-liberal convergence’ or, from a ‘MacDonaldization’ of the world. As long as governments’ survival depends on the support of geographically determined constituencies, we should heed Tip O’Neill’s insight that ‘All Politics is local’, although, ‘local’ may not mean narrowly circumscribed constituencies, but rather regions, or even, the nation state itself.

This article then, examines to what extent these two factors, globalization and constitutional features, affect the redistributive capacity of the state. The argument is rather straightforward: if indeed globalization has the hypothesized effects, we should expect less redistributive capacity in open economies; on the other hand, examining Lijphart’s two dimensions of democracy (1984, 1999) we should expect to find a higher redistributive capacity of the state driven by an ‘enabling’ institutional structure based on collective veto points, while we should observe a negative effect of competitive veto points on the redistributive capacity of the state, since they tend to ‘restrain’ government.

In addition to the external influence argument it will be argued that formal domestic institutional structures such as proportional representation, and ‘informal’ institutional structures such as executive powersharing in broad multi-party coalitions, executive-legislative balance of power, multi-party systems, and corporatist systems of interest representation tend to expand state activity, while restraining institutions, i.e. separate institutions with mutual vetoes, such as federalism, equally strong legislatures, rigid constitutions, the presence of judicial review, and more independent central banks should restrict state activity.

The purpose of this study is to examine whether differently structured constitutional elements, that is, formal constitutional rules such as the type of electoral system, but also less strictly defined features such as the effective number of parties, or the degree to which labor and capital coordinate public policy making, have systematic and predictable effects on the redistributive capacity of the state, while at the same time, controlling for the effect of globalization on the capacity of
the state to redistribute incomes. Thus, this study adds to the ‘veto points’ literature \cite{Tsebelis, 1999; Colomer, 1995; Schmidt, 1996; Huber et al. 1993; Hallerberg and Basinger, 1998} by arguing that simply counting the number of veto points is not enough; that instead, one must examine the particular nature of the veto points to understand their effects. Political power is diffused in different ways: if institutions are structured such that political actors interact with each other based on separate agencies with mutual veto powers, we would expect difficulties in changing from the status quo. However, if political actors interact with each other on a face to face basis, such as in multi-party systems, or in institutions which share governmental responsibility, there will be a tendency to expand state activity based on logrolling behavior. Thus, not all veto points are created equal. What needs to be examined is the nature of the structure of veto players and their interrelationships. This study will also add to the growing literature on globalization with the surprising result that ‘globalization’ is positively related to the redistributive capacity of the state.

The central point of this article is to analyze both forces simultaneously: the global as well as the institutional one. This is quite in keeping with Gourevitch’s (1978, 911) assertion that ‘International relations and domestic politics are . . . so interrelated that they should be analyzed simultaneously, as wholes’. What follows is a more detailed deductive analysis as to why these things should occur as stated. Then, the data and the research design are introduced. The conclusion will offer an assessment of the empirical analysis and the connections and interactions between the forces of globalization, political institutions, and the redistributive capacity of the state.

\textit{The Forces of Convergence}

According to apostles of globalization, the state is withering away, but not in the manner predicted by Marx. Rather, the state has been likened to ‘ . . . an old tree, still sprouting new leaves and branches and apparently still alive, but actually hollow in the middle, inactive and ineffectual in the really basic matters of security and money for which it was designed’ \cite{Strange, 1995, 304}. Others argue that exposure to the international economy will hollow out the state, destroy idiosyncratic state-society relationships such as social democratic corporatism, where ‘deliberative democracy may suffer’ \cite{Schmidt, 1995, 77}, leading to ‘erosion of state capacity’ \cite{Cerny 1994, 334}; in short, leading to a situation where the state is becoming ‘defective’ \cite{Strange, 1995, 55}. Extending this line of thought to the fate of democracy itself, Claude Ake \cite{1997, 285} asserts that the ‘. . . process of globalization attacks
democracy in a manner that is uniquely different and extremely threatening . . . It [globalization] is simply rendering democracy irrelevant and in this it poses the most serious threat yet in the history of democracy’. And under the rubric of ‘demise of the nation state’ Ake also (1997, 287) argues that ‘. . . the transnationalization of more and more things, especially economic activities, decisions which affect people’s lives and shape public policies decisively are made in distant places, often anonymously, by agents and forces we can hardly understand, much less control’.

Not that long ago we were told to ‘bring the state back in’ (Skocpol, 1985), and now we are supposed to throw it back out already? On the other hand, there are those who are less sanguine about the debilitating effects of globalization on the sovereignty of nations. Two excellent edited volumes by Berger and Dore (1996) and Boyer and Drache (1996) argue that the claims of the subversive impact of globalization on the autonomy of the state are exaggerated and premature. Hirst and Thompson (1996) make a similar argument. Also, Duane Swank (1998) finds that the theory of ‘diminished democracy’ as a result of globalization is overstated, as there is no empirical connection between the structural power of international capital and its pressure on domestic policy makers to reduce taxation of capital.

For an observer of corporatism, the debate about globalization and its impact on the national political economy, must at this point of our debate, become rather puzzling. Was it not precisely the process of openness itself that has historically created the nation specific forms of corporatist interest intermediation? For comparativists, the impact of the international system on domestic politics has always played a major part in their scholarship (Gerschenkron 1963, Hintze, 1975, Gourevitch 1978, Cameron 1978, Rogowski 1987, Almond 1989, and others). Most of this literature argues that as a result of exposure to international business cycles, nations developed specific ways to deal with these challenges. Practically all of these nation-specific corporatist arrangements were fostered either during the Great Depression or during WWII. Consequently, international challenges did not weaken the respective states; if anything, they have learned to dynamically adjust to these international challenges in such a way as to ensure economic efficiency with a minimum of social dislocation. Maybe some of us have forgotten the fable of the snake, the frog and the owl, Peter Katzenstein (1985, 200) tells us at the end of his book entitled Small States in World Markets. Its gist is that: ‘The small European states adapt domestically to economic change imposed by an international economy that they cannot hope to control’.

It is true that today capital is more mobile than ever before; capital
controls have been virtually abolished, and the state, so the argument goes, will find it increasingly difficult to tax capital (but, Swank 1998). If capital perceives to get taxed ‘excessively’, it will become ‘footloose’ and flee to ‘safer’ environs. Similarly, high skill, mobile labor will move to wherever opportunity knocks harder, while low skill labor will stay put. If the argument of the traditional ‘corporatists’ above is correct, i.e. that corporatism and the welfare state are a cushion to soften the blow of globalization, then the state faces a cruel choice; it either continues the welfare state and risks falling behind in competitiveness, efficiency and productivity, or it opens up to the global economy and becoming more competitive, productive and efficient. The downside of that policy, however, is higher exposure to the vagaries of the market, rising inequality, increasing social dislocation, and breakdown of social cohesion and community. New labels of ‘outsiders’ and ‘losers’ are created all over Europe. The Germans speak of a ‘two thirds society’; the Danes speak of the ‘A-team’ (the winners), the ‘B-team’ (the losers), and also of a ‘C-team’ (the thoroughly marginalized). France has become a ‘société à deux vitesses’, a society of two speeds. The British have their ‘underclass’. However, according to Esping-Andersen, these marginalized groups do not make up a coherent and homogenous stratum (Esping-Andersen, 1999).

However, there is little empirical evidence that the welfare state itself, or its institutions, such as social democratic labor market institutions and corporatism, have been reduced or undermined. Stephens, Huber, and Ray (1999, 189) find that over time, ‘. . . only relatively moderate [welfare state] rollbacks . . .’ have occurred between 1945 and 1989. Similarly, a close examination of union density, union coverage, union monopoly and concentration, and authority in unions and employer’s organizations for the period from 1945 to 1989 finds that ‘. . . industrial relations institutions and trade unions have by and large proved quite resilient in the face of considerable domestic and international economic pressures in the past two decades’ (Golden, Wallerstein, Lange, 1999, 223). Thus, it does not appear that over time, social democratic labor market institutions have significantly been dismantled. A panel analysis below will shed light on the performance of these institutions with regard to their ability to redistribute incomes.

The debate above, thus, has isolated a central puzzle: does globalization undermine or increase the state’s capacity to redistribute incomes to such an extent to maintain social cohesion, equality, and prevent social dislocations as a consequence of globalization? According to Dani Rodrik, ‘. . . globalization presents this dilemma: it results in increased demands on the state to provide social insurance while reducing the ability of the state to perform that role effectively’ (Rodrik, 1997, 53).
To check this claim will be precisely the task in the empirical section below, as the impact of economic openness on the redistributive capacity of the state will be explored. But before we can move on to that, another factor weighing in on the redistributive capacity of the state has to be examined – the role of domestic political institutions. This is the task to which we turn now.

**Forces of divergence**

There is a second major contender which could assist in explaining the redistributive capacity of the state: that contender is political institutions. Using political institutions as an additional predictor, we rely on a fundamental assumption: the pressures of internationalization are filtered, mediated and refracted through nation-specific political institutions. Since these institutions are different, we should expect different impacts of internationalization, even if the international forces, which impinge on the states, are of the same kind and intensity. The most appropriate model specification for such moderating effects is an interaction model which will be discussed below.

This is not to say that the only forces explaining policy choices in advanced industrial democracies are political institutions and globalization. Besides institutions, ‘cultures’ differ. Gourevitch (1996, 258) is very doubtful for neo-liberal convergence to take place given that: ‘Cultural traditions are powerful; countries have different traditions in networking, personal relationships, conceptions of authority, models of organizations and individuals’. There are also nation specific differences in ‘production cultures’. Streeck (1996) finds that lean production principles based on broad rather than specialized skills and company specific skills rather than portable skills between companies is consistent with Japanese culture, but would not transfer well to German auto plants because of the different cultural occupational ethos of the German workforce. Thus, this article does not deny these variations in ‘culture’; however, given the small number of countries examined and the space limitations, the emphasis in this article will be placed on globalization and domestic political institutions.

There is a myriad of evidence indicating that political institutions such as parties, forms of interest group representation or constitutional features, have predictable effects on a variety of policy fields, such as macroeconomic outcomes (Kirschen, 1964; Hibbs, 1977; Castles, 1982; Schmidt, 1982; Olson, 1982; Lijphart 1999, and others), income inequality (Cameron, 1988; Mueller, 1988, 89; Lijphart, 1999), strikes (Korpi and Shalev, 1979; Humphries, 1990; Birchfield and Crepaz, 1998; Lijphart 1999), environmental outcomes (Enloe, 1975; Jänicke,

In his 1984 book, Arend Lijphart makes a fundamental distinction between two dimensions of democracy: what he terms, the ‘executive-parties dimension’ and the ‘federal-unitary dimension), a distinction that is maintained in his latest book Patterns of Democracy (1999). Each of these two dimensions has a consensual and a majoritarian continuum. The two dimensions reflect two different forms of veto points; the first, what Lijphart terms ‘executive-parties’ dimension, can be thought of as institutions in which the actors interact with each other on a face to face basis without the protection of separate institutions with mutual veto powers. Robert Goodin (1996, 331) termed these veto points ‘collective agency’ and ‘shared responsibility’; i.e. these veto points disperse political power within various political bodies, be they cabinets, parliaments, or within interest groups. The actors have to deal with each other on an on-going basis, sometimes in different roles and with different responsibilities but without an autonomous institutional veto power, as in the case of true bi-cameral legislatures for example. Crepaz and Birchfield (2000) termed these institutional characteristics ‘collective veto points’.

The five institutional characteristics of the ‘shared responsibility’ dimension are (the majoritarian characteristic is listed first in each case): first, concentration of executive power in single party, bare majority cabinets versus executive power-sharing in broad multi-party coalitions; second, executive-legislative relationships in which the executive is dominant versus executive-legislative balance of power; third, two-party versus multi-party systems; fourth, majoritarian and disproportional electoral systems versus proportional representation; fifth, pluralism versus corporatism (Lijphart, 1999).

Lijphart’s second dimension, the ‘federal – unitary’ dimension of democracies also contains a consensual – majoritarian continuum. Here however, political power is diffused by means of institutional separation such as federalism and bi-cameralism. Crepaz and Birchfield (2000) termed such institutional features ‘competitive veto points’ since in this case, different political actors operate through separate institutions with mutual veto powers. Such institutions, based on their mutual veto powers, should have a tendency to restrain government, sometimes leading to deadlock, immobilism and even shutdowns of government.

The five institutional features Lijphart (1999) isolates along the ‘federal-unitary’ dimension, or the divided power dimension are (again, the most majoritarian characteristic is listed first): first, unitary versus
1) The “executives-parties” dimension (Lijphart, 1999) “Collective veto points” (Birchfield and Crepaz, 1998)

<table>
<thead>
<tr>
<th>Consensus Democracy</th>
<th>Majoritarian Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive powersharing in broad multi-party coalitions</td>
<td>Single-party, bare majority cabinets</td>
</tr>
<tr>
<td>Executive-legislative balance of power</td>
<td>Two-party system</td>
</tr>
<tr>
<td>Multiparty systems</td>
<td>Dominant executive</td>
</tr>
<tr>
<td>Proportional Representation</td>
<td>Single-member district system</td>
</tr>
<tr>
<td>Corporatism</td>
<td>Pluralism</td>
</tr>
</tbody>
</table>

Inclusionary

Enabling institutions

“Joint responsibility”

Exclusionary

More veto points

Restraining Institutions

“Divided responsibility”

Less veto points

2) The “federal-unitary” dimension (Lijphart, 1999) Competitive veto points (Birchfield and Crepaz, 1998)

<table>
<thead>
<tr>
<th>Consensus Democracy</th>
<th>Majoritarian Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federalism</td>
<td>Unitary government</td>
</tr>
<tr>
<td>Equally strong legislatures</td>
<td>Unicameral legislatures</td>
</tr>
<tr>
<td>Rigid constitutions</td>
<td>Flexible constitutions</td>
</tr>
<tr>
<td>Judicial review</td>
<td>No judicial review</td>
</tr>
<tr>
<td>Independent central banks</td>
<td>Dependent central banks</td>
</tr>
</tbody>
</table>

Figure 1: Lijphart’s (1999) two dimensions of democracy

federal government; second, unicameral legislatures vs. division of legislative power between two equally strong but differently constituted houses; third, flexible constitutions which can easily be amended by simple majorities versus rigid constitutions which will require super-majorities; fourth, absence of judicial review versus presence of judicial
TABLE 1: Correlation of Constitutional Indices

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Schmidt (1996)</td>
<td>-.03</td>
<td>.83</td>
</tr>
<tr>
<td>Colomer (1995)</td>
<td>-.06</td>
<td>.84</td>
</tr>
<tr>
<td>Huber et al. (1993)</td>
<td>-.27</td>
<td>.84</td>
</tr>
</tbody>
</table>


... review; fifth, central banks that are dependent on the executive versus independent central banks. Lijphart (1999) created a convenient single index for each dimension encompassing the five elements which occur in both dimensions, the ‘executives-parties’, as well as the ‘federal-unitary’ dimension. Table one shows how Lijphart’s constitutional indices compare with the constitutional indices employed by other scholars.

Table one clearly indicates that Schmidt’s (1996), Colomer’s (1995), Huber’s et al. (1993) measures of ‘veto-points’, although partly relying on Lijphart’s own data, strongly correlate with Lijphart’s second dimension but not with his executive-parties dimension. What these scholars were measuring then, is much closer to constitutionally anchored, ‘competitive’ veto points, than to collective veto points, or the executives-parties dimension containing elements such as the electoral system, coalition vs. single party bare majority cabinets, and the form of interest group representation. In the introduction it was argued that these two dimensions represent two qualitatively different forms of diffusion of political power with systematically different redistributive consequences. How do these two dimensions of democracy affect the redistributive capacity of the state?

Figure one details the various elements of the first and second dimension and places them on a consensus/majoritarian continuum. Along the ‘executive-parties’ dimension, consensual democracies should have a positive impact on the redistributive capacity of the state. In the ‘executives-parties’ dimension, the players interact with each other ‘collectively’ in the same political body, in a face-to-face and on-going relationship. This entails collective agency and shared responsibility. In such an environment, particularly when public spending is involved, the pressure to produce responsive policies is much greater and partisan politics is also more muted (Schmidt, 1996). The opposite is true on the majoritarian end of the ‘executive-parties’ dimension: the more majoritarian and exclusionary the institutions, the lower the redistrib-
utive capacity of the state. Thus, in Figure one, as one moves toward the consensus-end of the consensus-majoritarian democracy continuum, i.e. from a more majoritarian (exclusionary) to a more consensus oriented (inclusionary) constitutional structure, we would expect to see a higher redistributive capacity of the state.

Countries which score high on consensus along the first dimension should display a higher redistributive capacity of the state over time given the nature of these institutions. The logic is rather straightforward: institutions which force bargaining solutions such as proportional representation which tend to yield multi-party systems, which necessitates coalition governments, leads to ‘logrolling’ behavior among the included parties which tends to expand the size of governments, thus we should expect to see higher redistribution in countries with a prevalence of such institutions. Such institutions can move away from a given status quo (as opposed to the ‘classical’ veto points such as federalism, or bicameralism, where there are separate institutions with mutual veto powers) although the direction, it is suspected, is more towards expansion rather than restriction of the role of the state.

However, there are limits to the absolute levels to which such institutions can push the redistributive capacity of the state. Multi-party legislatures may reach points where continued logrolling is not feasible anymore, either as a result of serious budget constraints, or popular perceptions that the state is already ‘too big’. Even so, countries which score high on these ‘enabling’ institutions, based on shared responsibility, should be better equipped to move politics also towards a lowering of state expansion. Nevertheless, since ‘cutting back’ tends to be politically difficult, countries with ‘collective veto points’ should have arrived over time at rather higher levels of redistribution than those which are located at the majoritarian end of the collective veto points continuum.

But what about the federal-unitary dimension, or what Crepaz and Birchfield (2000) called, ‘competitive veto points’? Does more consensus also mean a higher redistributive capacity of the state? No it does not. The interaction between the actors and their relationship to the actual institution they represent is qualitatively different in the federal unitary dimension as compared to the executives parties dimension. More ‘consensus’ in Lijphart’s second dimension means more dispersion such as federalism and bicameralism. This is consistent with Lijphart’s (1999, 2) general definition of the ‘... consensus model [which] tries to share, disperse, and limit power in a variety of ways’. However, in the federal-unitary dimension, more consensus means more dispersion of political power, i.e. more veto-points, which, if the literature on veto points is correct (Huber, Ragin, and Stephens, 1993; Tsebelis, 1995; Schmidt, 1996), would lead us to believe that policy
change should be more difficult the larger the number of veto players. Thus, whatever the level of the redistributive capacity of a state is at a given moment in time, it will be more difficult to change given the higher number of veto points.

Lijphart explained relatively little with his second dimension of democracy. This dimension was strongly connected only with inflation, i.e. consensus democracy had strong negative effects on inflation. How should the second dimension affect the redistributive capacity of the state? In the second dimension, the political actors interact with each other ‘competitively’ based on separate agencies endowed with mutual veto powers and individual responsibility. Thus, the more veto-points various constitutional structures allow, the less the chances for policy change. Consequently, we would expect to find lower redistributive effects in consensual institutions than in majoritarian ones along the second dimension. Such institutions should have a much lower capacity to move from the status quo, be it at a low level of redistribution or a high level of redistribution. Since such institutions have an inhibiting effect on state expansion, over time it is assumed that redistribution has not increased significantly as opposed to those countries who score more than towards the ‘less veto points’ end of the competitive veto points continuum. The next section provides the data and examines these claims empirically.

Hypotheses, Data, and Findings

This study will explore the impact of globalization, as well as political institutions on the redistributive capacity of the state. The term globalization will be operationalized using two measures which are traditionally connected to the concept of ‘globalization’. The first measure is trade openness; it captures quite aptly the degree to which countries are integrated in, and depend on, world wide trade. Trade has increased quite dramatically. From 1960 to 1990, among the OECD economies the ratio of exports to GDP doubled from 9.5 percent to 20.5 percent. World merchandise trade grew about one and a half times the rate of growth of world GDP from 1965 to 1990 (Wade, 1996). The reason for this lies in the fact that trade is not restricted to goods; increasingly services, from telephone calls to architects’ plans are being sold, capturing a richer definition of trade than has hitherto been used. According to the WTO, global trade has grown 16-fold between 1950 and 1997 (Economist, October, 1998). Secondly, foreign direct investments (FDI) are also used as an additional measure to capture the concept of ‘globalization’. FDI are measured as the sum of the inflow and outflow of FDI, expressed as a percent of all domestic investments. Both of
these measures were standardized, added up, standardized again to create a composite measure, called ‘globalization’.

This research design is a panel study (N=15, t=2) and includes the following countries: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, United Kingdom, and the United States. Each country is examined at two time points (see table one for detailed listing of countries and years). Given that there is a time element (though a short one) in this research design, autocorrelation within each cluster of units was a concern. To alleviate this concern, Huber’s heteroskedasticity consistent standard errors were used by treating the fifteen clusters (units of two) as independent observations, and the two observations over time within each cluster as not independent. Although this research does contain an element of time within its design, it is still cross-sectionally dominant and any results will be more affected by absolute levels of redistribution between clusters rather than changes over time within clusters.

The dependent variable ‘redistributive capacity of the state’ was created by computing the percent difference between the LIS – Low Income Measures that are based on the latest updated and re-configured LIS (Luxembourg Income Study) dataset from August 25, 1998 compiled by Koen Vleminckx. ‘Low income’ has been defined as the percent of households which have a lower income than 50% of the median equivalent household income. The equivalence scale used for measuring household income was 1 for head of household, .7 for other adults in the household, and .5 for children in the household.

The ‘Low Income’ LIS dataset provides three items: first, the percent of households with an income of less than 50% of the median household income before taxes; second, the percent of households with an income of less than 50% of the median household income before transfers; and third, the percent of households with an income of less than 50% of the median income after taxes and transfers. The percent different between the number of households with incomes less than 50% of the median income before taxes and transfers, and after taxes and transfers, is the measure for ‘redistributive capacity of the state’. The higher the number, the higher the redistributive capacity of the state. The independent variables (with the exception of the institutional ones) were all lagged by the average of five years before the observation for every respective dependent variable, i.e. ‘openness’ and ‘FDI’ represent the average of five years before the observation of any dependent variable.

From the literature review above on the effect of globalization on the welfare state, it is hypothesized that globalization, according to
Table 2: Redistribution and globalization at two time periods

<table>
<thead>
<tr>
<th>Country and year</th>
<th>Percent of households below 50% median income before taxes and transfers</th>
<th>Percent of households below 50% median income after taxes and transfers</th>
<th>Redistributive capacity of the state</th>
<th>Openness (imports and exports as % GDP)</th>
<th>Inflow and outflow of Foreign Direct Investment as % all domestic investments</th>
<th>Globalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aus 81</td>
<td>31.0</td>
<td>13.4</td>
<td>55.2</td>
<td>33</td>
<td>6.2</td>
<td>-0.79</td>
</tr>
<tr>
<td>Aus 89</td>
<td>33.5</td>
<td>17.8</td>
<td>45.4</td>
<td>34</td>
<td>11.8</td>
<td>-0.43</td>
</tr>
<tr>
<td>Bel 85</td>
<td>42.9</td>
<td>7.3</td>
<td>85.0</td>
<td>142</td>
<td>9.0</td>
<td>-0.84</td>
</tr>
<tr>
<td>Bel 92</td>
<td>44.0</td>
<td>7.1</td>
<td>82.1</td>
<td>143</td>
<td>29.7</td>
<td>2.16</td>
</tr>
<tr>
<td>Can 81</td>
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<td>6.3</td>
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<tr>
<td>Can 94</td>
<td>36.6</td>
<td>14.4</td>
<td>62.0</td>
<td>41</td>
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The ‘neo-liberal convergence thesis’ should have a depressing effect on redistributive capacity of the state (notwithstanding the more ‘traditional’ comparative literature on the subject, which claims the opposite). As Rodrik (1997, 4) clearly states, ‘Globalization has made it increasingly difficult for governments to provide social insurance . . .’.
If that is true, then countries with more exposure to the international economy should indicate a lower redistributive capacity.

Lijphart’s ‘executive-parties dimension’ should yield a positive sign; i.e. the further consensual countries are along the first dimension, the higher the redistributive capacity of the state. With regard to Lijphart’s second dimension (the federal-unitary), we should expect a somewhat different outcome. Based on the recent veto-point literature (Tsebelis, 1995; Huber, Ragin, and Stephens, 1993; Schmidt, 1996; Birchfield and Crepaz, 1998) we should expect institutions within which actors interact on the basis of separate agencies with mutual veto powers and individual responsibility (the federal/consensual pole) to inhibit the redistributive capacity of the state, while more unitary systems with fewer veto points should buoy redistribution. Thus, in the second dimension, the more consensual institutions are (i.e. the more federalist, equally strong second chambers, rigid constitutions, strong judicial review, and independent central banks) the more political power is dispersed ‘competitively’ and the more difficult it should be to change the status quo while the opposite is true for the majoritarian end of the institutional spectrum.

Since it is argued that globalization will be mediated through the respective institutional set-up of various countries, interactive dynamics have to be taken into consideration. Thus, two multiplicative terms (globalization multiplied with collective veto points and globalization multiplied with competitive veto points) will be introduced to examine whether institutions indeed have a mediating effect on globalization.

There is a myriad of evidence that ‘parties do matter’ when it comes to redistributive issues. Thus, it is hypothesized that the higher the percentage of left seats in the cabinet, the more representatives of such parties will push for the state to intervene, while the opposite is true for the more conservative parties. One of the most vocal defenders of the continued viability of domestic politics is Geoffrey Garrett who claims that, ‘the relationship between the political power of the left and economic policies that reduce market generated inequalities has not been weakened by globalization; indeed, it has been strengthened in important respects’ (Garrett, 1998, 1).

Even a cursory glance at Table two reveals some remarkable insights. On average, the state reduces the number of households with low incomes below the 50% median income from over 39% to around 12 percent which is a reduction of over 67 percent in the number of low income households! Also quite remarkable is the relatively high percentage of low income households pretax/pretransfers in the ‘traditional’ welfare states such as Sweden (1992) (52%), Norway (1995) (41.3%), Denmark (1992) (45.8%), Belgium (1992) (44.0%) and the Netherlands (1983)
In fact, the United States, a welfare state ‘laggard’, indicates lower pretax/pretransfer poverty than established welfare states (USA 1986) (33%). Of course, once taxes, and particularly transfers are taken into consideration, the United States has the highest number of people living in poverty with only a 34.1% reduction (1994) of the number of households living in poverty after taxes and transfers.

In Sweden, taxation does not reduce the poverty rate; in fact, after taxes, more people drop below the 50% median income line than before taxes. For example in 1981, before taxes, the percent of households living in poverty in Sweden (defined as income of less than 50% of the median income), was 36.5. After taxes, that number increased to 47%. Similarly, in 1987, before taxes that percentage was 37%; and after taxes, it increased to 47.9 percent. (These data are not shown in the table but available from: LIS Low Income Measures as computed by Koen Vleminckx, Luxembourg Income Study-LIS, August 1998.) Transfer payments, however, reduced Sweden’s poverty level on average from 37.1% to 6.7% which is an almost 82% reduction in the number of households living below 50% of the median income (based on four observations between 1975 and 1992).

Let us now turn to the empirical findings. Table three indicates first the bivariate results with ‘redistributive capacity of the state’ as the dependent variable followed by combinations of multivariate regressions including the interactive terms between the institutional structures and globalization.

Models 1 to 4 in Table three investigate the bivariate relationship between the independent variables and the redistributive capacity of the state. All variables, with the exception of left cabinet seats, indicate a statistically significant relationship in the expected direction at the .05 level (two tailed). Most impressively, collective veto points, or Lijphart’s ‘first dimension’ buoy redistribution by the state, while the second dimension, or competitive veto points, constrains state redistribution. Remarkably, globalization does not have the hypothesized effect of depressing the redistributive capacity of the state; it shows exactly the opposite coefficients, i.e. globalization tends to increase redistribution by the state in a statistically significant manner.

Employing multivariate models the significance and direction of the variables did not change; i.e. collective veto points (the executive-parties dimension), retained their positive effect on redistribution and competitive veto points, or the federal-unitary dimension, maintained their strong, significant and negative impact on the redistributive capacity of the state. This is strong evidence that institutions systematically affect the way the state redistributes income. It also indicates that the second dimension influences many more policy fields than simply reducing inflation as Lijphart (1999) suggested.
**TABLE 3:** Aggregated simple and multiple regression results (OLS with Huber’s heteroskedasticity consistent standard errors)

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<th>Second Dimension X2</th>
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<th>Left Cabinet X4</th>
<th>Inter Action X1* X5</th>
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Standard errors in parentheses. *<.1, **<.05, ***<.01 (two-tailed tests). All models have been tested for outliers and leverage points using studentized residuals and Welsch distance. Only leverage points of the ‘benign’ type were found. The interaction models have been tested for multicollinearity by examining the variance inflation factors (VIF’s). None of the models exceeded established thresholds.

All different models in Table three indicate that globalization and collective veto points have consistently positive effects on the redistributive capacity of the state while competitive veto points consistently have a negative effect. In other words, it is not at all the case that globalization adversely affects the integrative function of the welfare state or that globalization would be the death knell of the state; if anything, the results indicate that more globalization is connected to more redistributive effort on the part of the state in order to balance the winners and losers of the globalization process.

Models twelve and thirteen show the results of the interaction between the first dimension (executive-parties) and globalization. This article argued that not only should different institutions have different effects, but that institutions should systematically moderate the effect
of trade openness on the redistributive capacity of the state. However, using a multiplicative term (economic openness multiplied with the first dimension) yields an insignificant interaction term. However, model thirteen which uses a multiplicative term between the second dimension and globalization indicates that the effect of competitive veto points is significantly moderated by the level of globalization, and that the impact of globalization on the redistributive capacity of the state is significantly affected by the presence of competitive veto points. Somewhat surprisingly, the variable ‘percent of left cabinet seats’ is not significant at all.

Overall, these findings support Garret’s (1998, 6) claim that, ‘globalization and national autonomy are not mutually exclusive options. The benefits of globalization can be reaped without undermining the economic sovereignty of nations, and without reducing the ability of citizens to choose how to distribute the benefits – and the costs – of the market’.

Conclusions

Despite current talk about the ubiquity of globalization, this research finds a pattern that is actually quite consistent with earlier comparative studies about the impact of openness on the welfare state, the more exposed a polity is to the ups and downs of the international business cycle, the more it protects itself, as demonstrated by the inverse relationship between ‘globalization’ and the ‘redistributive capacity of the state’. This finding is in obvious contrast to the claims championed by globalists, which posit that the imperatives of an increasingly interdependent economy will dramatically reduce the manoeuvering room of national leaders by undermining their capacity to produce nation specific policy packages which address idiosyncratic problems of a geographically determined entity.

As long as the locus of political power is based in geographic terms, and the principles of sovereignty and accountability are connected to the concept of nation, no matter how ‘global’ the economy becomes, politics will remain ‘local’. Modern governments rely to a large extent on ‘performance legitimacy’ based on the functioning of markets as well as on the extractive and redistributive function of the state and rendered through the provision of social welfare. While pressures to streamline social programs certainly exist as a result of globalization, it would be naïve to assume that such longstanding programs would be rolled back. Empirical and anecdotal evidence suggests that very little in terms of roll-back of the welfare state is taking place as a result of increased globalization pressures.
Also, this research highlights the effect of nation-specific institutional structures on the capacity of the state to redistribute incomes. National configurations of political institutions predictably and systematically shape the redistributive capacity of the state. Depending on the nature of veto points, whether they are of a collective or competitive nature, they either positively or negatively affect the redistributive capacity of the state. Institutional settings in which the actors share responsibility and interact with each other on a face to face basis, such as in multi-party coalitions and corporatist structures, there is a tendency for expanding the role of the state. The larger the group which shares political power, the larger the tendency for logrolling behavior between various coalition parties and/or interest groups which in turn, will have an expanding effect on the role of the state. In such a setting, changing the status quo will have a bias towards expansion rather than retraction.

Conversely, when actors interact with each other on the basis of separate agencies with mutual veto powers, such as federalism and bicameralism, there is a tendency to slow down and inhibit the policy-making process. In such cases, changing the status quo in any direction is more difficult. Immobilism which tends to occur in such systems is reinforced by the murky accountability in terms of responsibility of specific political outcomes.

Thus, not all veto points are created equal. In the traditional veto-players literature a simplifying assumption is made that the more veto players (usually the number of parties), the more difficult it is to change the status quo. This research shows that it depends on the nature of the interaction between the veto players and whether they are endowed with unilateral veto powers that determines the capacity, and the direction for changing the status quo.

The pressures of globalization are filtered and refracted through nation-specific institutions. While little empirical evidence was found on the interactive effect between the first dimension and globalization, a very strong effect was found between the second dimension and globalization. The effect of globalization is strongly negatively moderated by the presence of competitive veto points, while the depressing effect of these veto points is strongly positively moderated by globalization.

Globalization has not neutralized the age-old efficiency-equality trade-off. In fact, globalization may bring that trade-off into even sharper relief. It is precisely because of the undeniable effect of globalization on domestic politics, that the state and the multitudes of nation-specific idiosyncrasies, such as political institutions and cultural differences, will play an even stronger role in the policy making process, rather than disappearing into the undefinable mist of a globalized and homogenized world.
1. ‘Fearful of being devoured by the snake, the frog asks the owl how he might survive. The owl’s response is brief and cryptic: learn how to fly. None of the European states has learned to soar like the eagle. What they have learned to cultivate is an amazing capacity to jump. Although they appear to land on their stomachs, in fact they always land on their feet and retain the ability to jump again and again in different directions, correcting their course as they go along. In a world of great uncertainty and high risk choices, this is an intelligent response. Frogs can escape snakes, and the small corporatist states can continue to prosper – not because they have found a solution to the problem of change but because they have found a way to live with change’ (Katzenstein, 1985, 211).

2. In fact there may well be such a thing as varying ‘cultural capital’ which leads to differential absorption of global shocks. For instance, during the 1973/74 oil shock, the Austrian government simply created another month of winter school holidays for its teachers and pupils, and made motorists choose one day of not using their car. A sticker in the windshield, indicating the weekday the car was not to be used, had to be displayed for police to enforce the law. The Austrian population accepted these decrees without much grumbling. Such a solution to a worldwide economic emergency would be unthinkable in the United States. The point is that in case of severe economic costs imposed from the outside, different behaviors, deeply rooted in national character, can either assist the state to creatively adjust to hard times, or lead to governmental instability, riots, industrial disputes or wider social unrest. This ‘cultural capital’ may prove to be an important national resource, particularly in economic hard times.

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