

**DOES SOCIAL SPENDING INCREASE SUPPORT FOR FREE  
TRADE IN ADVANCED DEMOCRACIES?**

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**FUNDACIÓN DE LAS CAJAS DE AHORROS  
DOCUMENTO DE TRABAJO  
Nº 432/2008**

De conformidad con la base quinta de la convocatoria del Programa de Estímulo a la Investigación, este trabajo ha sido sometido a evaluación externa anónima de especialistas cualificados a fin de contrastar su nivel técnico.

ISSN: 1988-8767

La serie **DOCUMENTOS DE TRABAJO** incluye avances y resultados de investigaciones dentro de los programas de la Fundación de las Cajas de Ahorros.  
Las opiniones son responsabilidad de los autores.

# **Does social spending increase support for free trade in advanced democracies?**

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## **Abstract**

The compensation hypothesis states that governments adopt social programs to compensate individuals for accepting high trade exposure. Previous empirical studies have tested this hypothesis by analysing the effects of international trade on social welfare spending, finding ambiguous conclusions. We test this hypothesis from a different perspective. Using the International Social Survey Programme (ISSP) questionnaire, we analyse the association between social welfare spending and the countries support for free trade in 22 OECD countries. We find that individuals tend to be more in favour of free trade in countries that spend more on social welfare benefits. This association becomes stronger once we have controlled for individual economic and non-economic factors affecting attitudes towards free trade. Furthermore, the association applies to the components of social welfare spending most importantly related to economic insecurity: pensions plus unemployment benefits.

**Key words:** Free trade, Support for globalisation, Social Security, OECD, ISSP.

*JEL Classification :* F13, F41

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## I. Introduction

In the last decade, there has been a growing literature that explores both the determinants of individual trade policy preferences and the political economy underpinnings of economic openness. Most empirical studies find that individual's skill levels (and not industry of employment, gender, area of residence or idiosyncratic factors) primarily determine trade policy preferences, a result that is consistent with the Heckscher-Ohlin model (Scheve and Slaughter, 2001; Mayda and Rodrik, 2005). Another crucial result is that there is a positive correlation between trade openness and the size of the public sector (Rodrik, 1998). This "compensation hypothesis" highlights the effects of globalization on the demand side of the political market: voters pressure governments to provide them with more social insurance to mitigate the exposure to greater levels of external risk induced by globalization, thereby increasing social welfare expenditures. This suggests that compensation could be a useful political strategy for building a free trade coalition.

Given the present economic context, characterized by growing trade volumes, increased insecurity in the labor market, a declining support for free trade in advanced countries<sup>1</sup>, and a reduction of the wage share on national incomes for most OECD countries, it has been argued that it is necessary to increase social security spending to avoid a backlash against globalization (Scheve and Slaughter, 2006). Only if the workers' anxiety associated with rising imports is reduced, would it be possible to maintain support for economic openness. Otherwise, it would be difficult to prevent protectionism and countries would not be able to take full advantage of the opportunities posed by open markets. Thus, the sustainability of globalization crucially depends on the ability of advanced democracies to revive the "compromise of embedded liberalism" (Ruggie, 1982). In fact, some political initiatives are already dealing with this issue. In 2007, the European Union (EU) created the Globalization Adjustment Fund, a new tool to support active labour market policies, which is specially designed to help workers affected by trade-induced layoffs. In the United States, there is an ongoing discussion to increase the financing and scope of the Trade Adjustment Assistance Programme, created in 1974.

Previous empirical evidence has tested the compensation hypothesis by analysing the effects of international trade on social welfare spending, finding ambiguous conclusions (Gemmell et al., 2008). In this paper, we test the compensation hypothesis from a different perspective. Using the latest available results of the International Social Survey Programme (ISSP) we show that OECD countries in which the social security system is more extensive register higher levels of support for free trade and globalization. This result is in line with several recent studies that also explore the microfoundations of

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<sup>1</sup> For example, an ongoing NBC News/Wall Street Journal poll found that from December 1999 to March 2007, the share of respondents stating that trade agreements have hurt the United States increased by 16 percentage points (to 46 percent) while the "helped" share fell by 11 points (to just 28 percent). A 2000 Gallup poll found that 56 percent of respondents saw trade as an opportunity and 36 percent saw it as a threat; by 2005, the percentages had shifted to 44 percent and 49 percent, respectively.

Rodrik's thesis (Hays, Ehrlich and Peinhardt, 2005; Scheve and Slaughter, 2006; Mayda, O'Rourke and Sinnott, 2007). However, our analysis is slightly different in that we disaggregate social spending into a variety of categories and show that, controlling for a number of individual economic and non-economic factors, there is a strong and positive significant correlation between support for free trade and all our measures of the welfare state. In particular, we find that higher levels of unemployment and pension expenditure lead to higher levels of support for free trade. This result is consistent with the idea that insecurity in the labour market is at the heart of the resistance generated by globalisation and that extending the Welfare State could increase support for free trade.

This paper is organized as follows. In the next section, we provide our theoretical framework and briefly review the different trade models that predict the diverse individual attitudes towards trade policy. In the third section we present our database, a sample of 22 OECD countries for which data on social welfare spending is available and which also takes part in the International Social Survey Program. After presenting other factors that may influence support for free trade, we present the results of the econometric analysis in the fourth section. Section 5 sets out our main conclusions.

## **II. Theoretical framework and literature review**

Economic policies are determined by a combination of ideas, interests, and institutions (Hall, 1997). Individuals form their trade preferences on the basis of both ideas and economic self-interest, which are then, later channelled through their countries' institutional framework to produce economic policy outcomes. Since trade policy is never decided through direct voting, the incentives different individuals have to organize and lobby the government have a crucial impact on the policies that governments implement (Olson, 1971).

Most of the literature on the political economy of trade policy has tended to treat ideas and institutions as exogenous variables and has concentrated on economic interest as the main driver of individual trade policy preferences.<sup>2</sup> Using trade models to predict individual attitudes towards free trade and protectionism, most analyses of endogenous tariff formation assume that individuals – who are both producers and consumers – will favour trade policies that maximise their net income.

However, different trade models lead to different predictions depending on the assumptions about workers' mobility between sectors. For instance, when workers cannot easily change sectors, as in the context of the Ricardo-Viner/specific factors model, their preferences regarding economic integration policy will depend on the sector in which

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<sup>2</sup> Most of the exceptions come from the political science perspective. See, for instance, Goldstein (1993). Destler (2005) provides a detailed study of the role of institutions on American trade policy

they are employed. Workers employed in import-competing industries will tend to favour high tariffs while workers employed on export-oriented sectors will tend to favour low tariffs or subsidies. Finally, other things being equal, workers employed in non-tradable sectors that consume imported goods and services are assumed to oppose protectionism because lower tariffs tend to reduce import prices.

If, on the other hand, workers are able to move freely among sectors, as occurs in the Heckscher-Ohlin/factor endowments model, then, the skills of the workers become the key variable in their support for globalisation. In this framework, trade integration modifies the relative prices of the factors according to the Stolper-Samuelson theorem: it increases the return on the relatively abundant production factors of the countries while it reduces it for factors that are relatively scarce. Therefore, in countries where training is widely available, highly-skilled workers will support free trade, whereas low-skilled workers will oppose it. In contrast, in countries where training is relatively scarce, highly skilled workers will oppose economic integration, whereas low-skilled workers will support it. This is why the core variable in the explanation of the approach of a person to trade policy is education.<sup>3</sup>

There are a number of empirical studies that attempt to determine which model better predicts attitudes towards trade. Pioneering studies in the field focused on a specific country and measured trade policy attitudes indirectly, through the observation of some political action, such as lobbying, campaign contributions, coalition formation, or voting. They delivered mixed results: Irwin (1996) and Magee (1978) found support for the Ricardo-Viner model; Rogowski (1989) and Midford (1993) found support for the Heckscher-Ohlin model; and Beaulieu and Magee (2001) and Baldwin and Magee (1998) found support for both.

However, recent and more sophisticated econometric studies have been able to measure attitudes towards free trade directly by using opinion surveys. Most of them find that industry of employment is dominated by factor type and conclude that there is stronger support for the Heckscher-Ohlin model. This is the case of country studies, such as Sheve and Slaughter (2001) on the United States, and also of papers based on cross-national survey data like Balisteri (1997), O'Rourke and Sinnott (2001), Beaulieu *et al.* (2003), Mayda and Rodrik (2005), and Sanz and Martínez i Coma (2007).<sup>4</sup>

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<sup>3</sup> It is possible to see the Ricardo-Viner and Heckscher-Ohlin models as complementary. In fact, the Ricardo-Viner model can be regarded as a particular short-run case of the long run Hechscker-Ohlin model.

<sup>4</sup> Mayda and Rodrik (2005) also find some support for the Ricardo-Viner model. However, this finding applies only to workers employed in import-competing sectors and not for workers employed in export-oriented ones.

Several of the previously cited papers also acknowledge that interests are not the only determinants of trade policy preferences. A number of socio-demographic variables such as age, gender, area of residence, and other idiosyncratic factors also affect preference formation. Our analysis will include all these relevant factors (and also country dummies) as control variables for the regressions. However, the main focus of our paper is the relationship between the size of the Welfare State and trade preferences, which is one of the least developed strands of the academic literature on the political economy of trade policy.

Within a different subfield of the political economy literature, Rodrik (1998) has shown that more open economies tend to have bigger governments. He also claimed that the countries that are most exposed to international trade face greater levels of volatility in income and consumption. In other words, opening an economy of a country increases the risks posed to its citizens. Nevertheless, he holds that citizens would be willing to allow their governments to liberalise trade if the increase in economic volatility generated as a result were to be offset by higher social security spending. He suggests, therefore, that openness causes increases in social spending. The theoretical underpinnings of this compensation policy were first pointed out by Ruggie (1982), who argued that the post war international economic order was based on the compromise of embedded liberalism, in which democratically elected governments protected citizens from the risks associated with trade liberalization through social security and obtained support for economic integration in return.<sup>5</sup>

In summary, despite the enormous influence of the embedded liberalism hypothesis, the studies that test it are both recent and limited. Moreover, only a few of them have gone one step further and explored if higher levels of social security spending lead to greater support for free trade and globalization (Hays, Ehrlich and Peinhardt, 2005; Scheve and Slaughter 2006; Mayda, O'Rourke and Sinnott, 2007). This is the question we address in the following pages.

### **III. The Welfare State and Support for Free Trade: Descriptive analysis.**

Our main goal is to test whether support for free trade and globalization is higher in countries whose social protection systems are more generous. In order to do it, we use the latest available results of the International Social Survey Programme (ISSP) questionnaire on national identity, which surveys 44,170 people from 33 countries (ISSP 2003, ‘National Identity II’). The people surveyed were asked whether *[their country] should limit the import of foreign products in order to protect the national economy*. The opinions of those surveyed range from those who strongly agreed (the most protectionist position) to those who strongly disagreed (the opinion most in favour of free trade).

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<sup>5</sup> See Adsera and Boix (2002) for a model in which domestic compensation emerges as just one possible strategy to build a free trade coalition. This paper claims that in theory it is possible to liberalize trade and maintain political support without compensating the losers.

Specifically, the responses were coded as follows:

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

A score of 1 indicates a protectionist position; while a score of 5 reflects support for free trade.<sup>6</sup>

We cross the responses to this question with social security expenditure in the country in which the person interviewed resides, so as to observe whether the existence and size of the Welfare State increases support for free trade. There is information concerning Social Security expenditure for 22 of the 33 countries included in the ISSP questionnaire. Figures referring to Social Security expenditure were obtained from the OECD Social Expenditure Database and are shown as a percentage of GDP. The latest available figures (2000-2001) are also shown for the two most significant items of Social Security spending: pensions and unemployment benefits.

**Table 1: Results of International Social Survey Programme Questionnaire in OECD Countries**

Country	Support for free trade	Social Security expenditure (% GDP): average for 2000-03	Pension expenditure (% GDP): average for 2000-01	Unemployment expenditure (% GDP): average for 2000-01
Australia	2.25	17.66	5.03	0.98
Austria	2.44	25.64	10.63	0.75
Canada	2.64	17.14	4.77	0.75
Czech Republic	2.66	20.72	6.77	0.26
Denmark	3.30	26.65	8.29	2.99
Finland	3.00	21.77	7.78	2.05
France	2.61	27.92	10.62	1.63
Germany	2.83	27.06	11.56	1.23
Hungary	2.22	21.47	7.89	0.42
Ireland	2.56	14.87	2.65	0.75
Japan	2.86	17.04	7.03	0.50
South Korea	2.60	5.39	1.31	0.12
New Zealand	2.47	18.49	4.86	1.26
Norway	2.99	23.77	6.65	0.43
Poland	2.23	22.38	8.30	0.89
Portugal	2.46	21.69	7.70	0.91
Slovakia	2.15	17.78	6.70	0.69
Spain	2.49	20.27	8.38	1.33
Sweden	3.12	29.94	9.22	1.14
Switzerland	3.05	19.18	11.61	0.50
United Kingdom	2.40	19.89	8.17	0.29
United States	2.35	15.49	5.23	0.27
<b>Simple mean</b>	<b>2.58</b>	<b>20.56</b>	<b>7.33</b>	<b>0.92</b>

<sup>6</sup> It is important to point out that the question is phrased in mercantilist terms, which may bias the answer in favour of protection.

Table 1 shows the results. Citizens in Scandinavian countries (Denmark, Sweden, Finland and Norway) and in Switzerland are the stronger supporters of free trade. On the other hand, public opinion in countries that have only recently joined the EU (Slovakia, Hungary and Poland) is more favourable to protectionism. Besides Australia, countries where there is greater support for free trade (Scandinavia) are those which spend the largest percentage of their GDP on Social Security. In fact, the correlation between free trade and Social Security spending is positive although not significant (+0.21). In particular, the approach to international trade appears to be more closely linked to pensions, although it is not significant either (+0.25), than to unemployment benefits, with which there is no correlation (0.00).

**Figure 1. Correlation between support for free trade and Social Security expenditure, OECD, 2000-03**

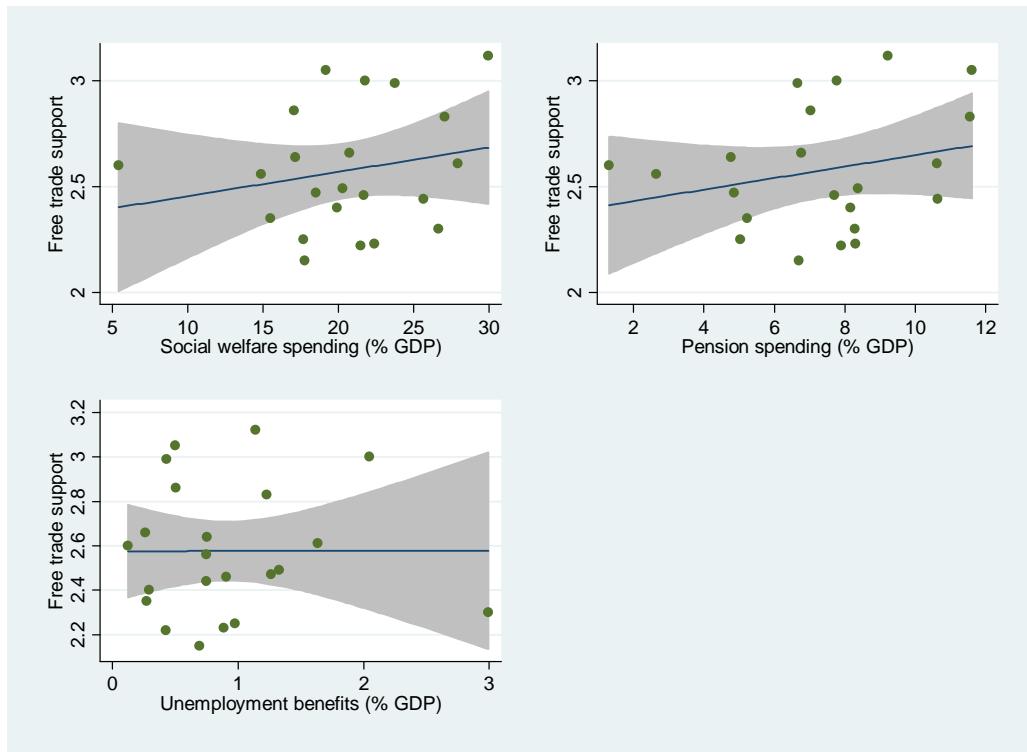


Figure 1 shows the relation between support for free trade and the three measures used to gauge the size of the Welfare State: (a) total Social Security expenditure and its two largest items (b) pensions and (c) unemployment benefits. The regression line shows a positive correlation between total Social Security expenditure and pensions expenditure and support for opening a country's economy. In other words, in countries which spend most on Social Security, especially on pensions, there is less popular support for limiting imports. In any case, there are many countries outside the confidence interval. Austria, for example, spends a high percentage of GDP on Social Security (25.64%) and yet support for free trade among the Austrian public is less than average (2.44, versus 2.58).

South Korea, on the other hand, assigns only a limited percentage of GDP to Social Security (5.39%), but its support for free trade is somewhat higher than average (2.60). In contrast, unemployment benefits show no kind of correlation with preferences in regard to free trade.

In short, the graphs suggest that there is a positive link between the Welfare State and support for free trade, but that the relationship is not significant. These findings suggest that other factors also impact public attitudes towards free trade in developed countries. We shall now examine whether the link between the Welfare State and support for free trade continues, becomes stronger or turns weaker once these other relevant factors have been taken into account.

#### **IV. Results of the estimates on Factors Determining Support for Free Trade**

The literature reviewed in the first section suggests that there are a number of variables that determine a person's attitude towards free trade in addition to the size of the Welfare State. We will now control for them. As highlighted by the Heckscher-Ohlin model and the Stolper-Samuelson theorem the most important is skill level. We measure skill by the years that individuals have been at school. We also take occupation into account in order to control for the effects of informal education on their attitudes towards economic integration. Specifically, we use the one-digit ISCO-1988 occupation classification.

Socio-demographic characteristics can also affect preferences in regard to trade. Sanz and Martínez i Coma, (2007) find empirical evidence of a U-shaped relationship between age and support for economic integration: working age people are more likely to oppose trade integration than young and elderly people. This may be explained because the young and the elderly are less exposed to the economic and job market insecurity associated with globalization. In contrast, Mayda et al. (2007) do not find this non-linear effect of age on attitudes towards free trade. We introduce both age and age squared in our model allowing us to test this U-shaped relationship.

Finally, some authors also suggest that women are more protectionist than men, which might be because the employment market is segmented in such a way that women are more at risk from economic liberalisation or because there are gender-specific values (Mayda and Rodrik, 2005). Some research has also found that support for globalisation in the most rural areas is lower than in other regions.

Table 2 describes the characteristics of the individuals interviewed in the ISSP 2003 questionnaire (education, age, gender, occupation and place of residence) which we will use as control variables in the study of the relationship between the Welfare State and support for free trade.

**Table 2 Individual characteristics that determine attitudes of the persons surveyed towards free trade besides the Welfare State**

Individual characteristic	Definition of the variable	Range
Education	Years at school	1-26
Education in countries with abundant human capital	The individual's years at school in interaction with average years at school of individuals in the same country	8.3-360.6
	Nine dummy variables taking value 1 if the occupation of the persons surveyed are:	
	- Members of armed forces - Company directors - Scientific professionals and intellectuals - Mid-level technical experts and professionals - Office workers - Services sector workers and salespeople - Farmers and skilled agricultural and fishing workers - Workers skilled in mechanical arts and crafts - Machine operators and assembly-workers - Unskilled workers	0-1
Occupation		
Age	Years	15-98
Gender	Dummy variable taking value 1 if the person surveyed is a woman and 0 if he is a man	0-1
	Five dummy variables taking value 1 if the person surveyed lives in:	
Place of residence	- Urban area, major city - Suburban area, outskirts of major city - Small city - Small town - Rural location	0-1

Table 3 shows the results of the estimate of factors determining the support for free trade. We restrict the sample to 22 OECD countries out of the 33 countries included in the ISSP questionnaire. The OECD Social Expenditure Database provides reliable data on social welfare spending based on accrual accounting and including all levels of administration. In contrast, the information provided by the IMF (Government Finance Statistics) is based on cash accounting and it is not consolidated for all levels of administration. Therefore, our analysis of the correlation between the Welfare State and support for free trade includes 27,896 individuals instead of the 44,170 originally surveyed. Further, restricting the sample to individuals for which all the control variables are available reduces the sample to a sample of 20,466 individual responses of the 2003 ISSP National Identity II survey.

We use an ordered probit model because this method takes into account that the distance between each of the responses is not necessarily the same (McKelvey and Zavoina, 1975). In other words, the distance between agreeing somewhat and being indifferent with free trade is not the same as between agreeing somewhat and strongly agreeing.

Model 1 includes the level of education of the individual as well as the interaction with the average education in the country where such individual resides. Our results reveal that education has a significant negative impact on the likelihood of supporting free trade. However, education in interaction with the average years at school in the country of residence has a significant positive impact. In other words, in countries where the average number of school years is high, education has a positive impact on people's opinion of free trade, whereas in countries where average education is low, education increases the probability of protectionist positions. The result is consistent with the predictions of the Heckscher-Ohlin model: in countries with abundant human capital, free trade will benefit the most highly-skilled; while in countries with scarce human capital economic integration helps the least skilled. Nevertheless, education starts to exert a positive effect on support for free trade in countries averaging three or more years of schooling: that is in all countries in our sample. The gender dummy variable is negative and significant, confirming that women are more protectionist than men. Age, on the other hand, does not seem to affect individuals' preferences in regard to trade. As regards occupation, there is empirical evidence that office workers, services workers, mechanical craftsmen, machine operators, unskilled workers and, above all, farmers, are more opposed to free trade than other workers.

Model 2 introduces the individual's education in interaction with the average number of school years of the region in which that person resides. The results confirm the predictions of the Heckscher-Ohlin model once again: in regions averaging three or more school years education, support for free trade increases. That is to say that education has a positive effect on support for free trade in all the regions of our sample. This is an expected result, since OECD countries are relatively abundant in human capital when compared to the rest of world. The other variables show very similar coefficients to model 1, indicating that the results are robust to changes in the estimate's specification.

**Table 3. Factors determining opinion on free trade (ordered probit model)**

Dependent variable: Should your country limit the import of foreign products in order to protect the domestic economy?		
	1	
Agree strongly	1	
Agree	2	
Neither agree nor disagree	3	
Disagree	4	
Disagree strongly	5	
		Model 1
Education	-0.037 (2.36)**	-0.026 (2.74)***
Education * Average education in the country	0.006 (4.88)***	
Education * Average education in the region		0.005 (7.13)***
Gender	-0.231 (14.25)***	-0.233 (14.33)***
Age	-0.002 (0.66)	-0.002 (0.68)
Age squared	-0.000 (0.90)	-0.000 (0.93)
Members of armed forces	-0.128 (0.90)	-0.107 (0.75)
Company managers	0.047 (0.51)	0.052 (0.56)
Scientists and intellectuals	0.050 (0.55)	0.057 (0.62)
Mid-level professionals	-0.108 (1.19)	-0.102 (1.12)
Office workers	-0.157 (1.71)*	-0.153 (1.67)*
Services sector workers	-0.234 (2.55)**	-0.227 (2.48)**
Farmers	-0.622 (6.31)***	-0.615 (6.24)***
Workers skilled in mechanical crafts	-0.317 (3.46)***	-0.309 (3.37)***
Installation operators	-0.316 (3.38)***	-0.309 (3.30)***
Unskilled workers	-0.271 (2.90)***	-0.264 (2.83)***
Residence in a major city	0.034 (0.29)	0.025 (0.21)
Residence in outskirts of a major city	-0.057 (0.49)	-0.061 (0.52)
Residence in a small city	-0.091 (0.79)	-0.075 (0.65)
Residence in a small town	-0.163 (1.40)	-0.145 (1.25)
Residence in rural location	-0.263 (2.18)**	-0.244 (2.02)**
Number of observations	20466	20466

(\*), (\*\*), (\*\*\*) 10%, 5% and 1% significant, respectively.

The two estimates in Table 3 include country dummy variables. The Austria dummy variable, for example, is a variable taking value 1 for that country and 0 for all others. The dummy variables capture idiosyncratic cultural or historic factors for each country. These are aspects shared by the individuals in a country and affecting their trade preferences. In short, these dummy variables reflect the support for free trade in each country once the individual factors, such as education, gender, age, occupation or place of residence have been discounted. The Australia dummy variable was omitted to avoid perfect multicollinearity, so that the idiosyncratic country effects must be interpreted in relation to Australia.

Table 4 shows the findings for the 21 country dummy variables introduced in models 1 and 2 of Table 3. It is observed that most of the country dummy variables are highly significant; confirming that, in addition to the individual benefits, nationality also affects people's attitudes towards economic integration. Denmark, Switzerland, Sweden, Finland and Germany are, in that order, the countries whose citizens have the highest probability of supporting free trade. Slovakia, the United States, Australia and Poland are, in contrast, those which most favour protectionist positions. The ranking is also similar regardless of whether the dummy variables estimated in model 1 or those of model 2 are used.

**Table 4. Country Dummies (ordered probit)\***

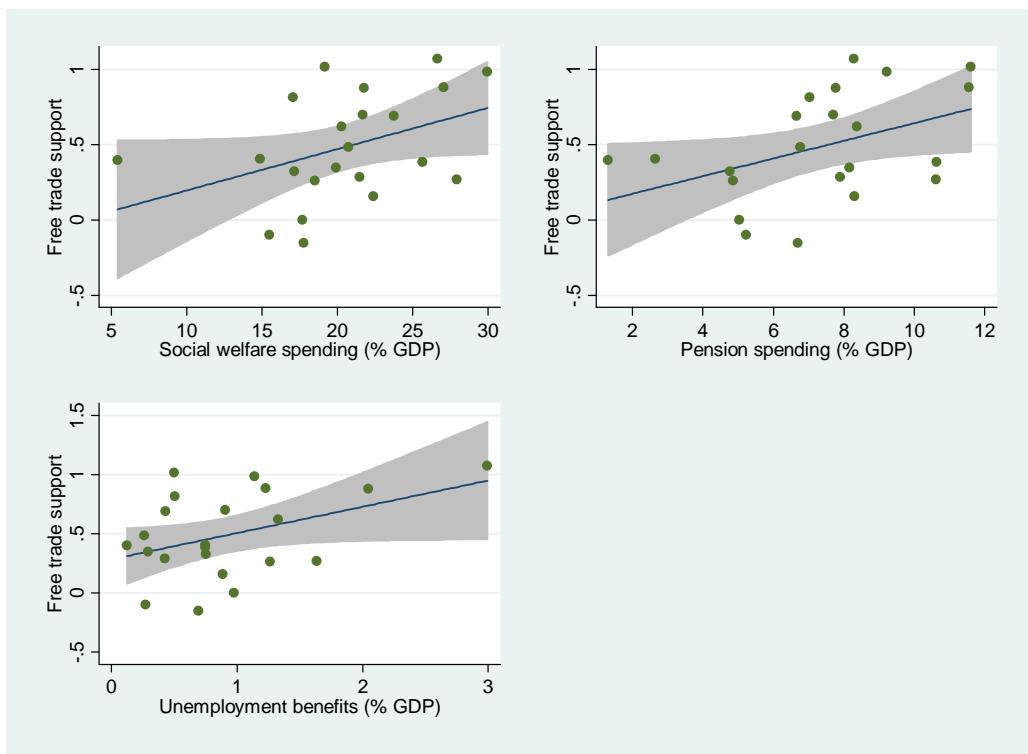
	Model 1	Model 2
Austria	0.384 (6.84)***	0.340 (6.92)**
Canada	0.323 (6.48)***	0.336 (6.84)**
Czech Republic	0.483 (10.80)***	0.465 (10.63)**
Denmark	1.073 (24.60)***	1.067 (24.46)**
Finland	0.877 (18.60)***	0.848 (19.20)**
France	0.270 (5.47)***	0.272 (5.75)**
Germany	0.883 (15.82)***	0.836 (18.32)**
Hungary	0.287 (4.82)***	0.238 (4.75)**
Ireland	0.403 (8.90)***	0.391 (8.63)**
Japan	0.814 (15.05)***	0.787 (15.20)**
South Korea	0.397 (8.80)***	0.380 (8.72)**
New Zealand	0.260 (5.38)***	0.257 (5.35)**
Norway	0.689 (17.07)***	0.689 (17.27)**
Poland	0.155 (2.74)***	0.108 (2.29)*
Portugal	0.697 (9.45)***	0.636 (11.81)**
Slovakia	-0.154 (3.13)***	-0.009 (0.18)
Spain	0.620 (9.57)***	0.556 (10.89)**
Sweden	0.983 (21.03)***	0.960 (21.55)**
Switzerland	1.016 (19.31)***	0.968 (21.22)**
United Kingdom	0.347 (6.99)***	0.318 (6.86)**
United States	-0.099 (2.27)**	-0.079 (1.91)

\*Australia is the reference country. Its dummy equals zero.

Figure 2 shows the relationship between country dummy variables and the various social expenditures. Because the dummy variables reflect the increased probability that a

citizen of a given country supports free trade due to idiosyncratic factors, it is reasonable to think that one of these aspects is the varying size of the social protection system. In fact, our initial hypothesis is that social expenditure increases support for free trade because it protects individuals from the volatility of international trade. Indeed, Figure 2 shows that the relationship between social spending and support for free trade (measured via the country dummy variables in Table 4) is now stronger than in Figure 1. In fact, the correlation between support for economic integration and social expenditure, pensions and unemployment is now 0.41, 0.43 and 0.41, respectively, and always significant at the 5% level. It is also interesting to observe that most countries are now within the confidence interval of the regression line in both social spending and pensions and unemployment. The relationship between the Welfare State and support for free trade is not only robust once other factors such as individual characteristics have been taken into account, but it is even stronger.

**Figure 2: Correlation between support for free trade by country (factoring in individual characteristics and social expenditure), OECD, 2000-03**



## **V. Conclusions**

The compensation hypothesis claims that citizens demand that their governments spend enough on Social Security to protect them from the economic volatility resulting from trade liberalization. Indeed, some authors suggest that popular support for globalisation hinges on maintaining or even extending the Welfare State, because if citizens observe that economic integration jeopardises social protection systems they will oppose globalisation. In this paper we present evidence of a positive correlation between social security spending and support for free trade in 22 OECD countries included in the 2003 ISSP National Identity II survey.

This relationship is robust when considering other factors that also affect public opinion of free trade, such as education, the human capital in a country or region, age, gender, occupation and place of residence. Once all these effects are factored in, the correlation between social expenditure and support for free trade in each country is even more robust. The findings suggest that resistance to globalisation can be overcome by maintaining the Welfare State. People seem willing to intensify the globalisation process if, in exchange, they are protected from greater levels of economic volatility, especially employment insecurity, that globalization entails.

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