Brian Burgoon Memo for Panel on FDI and Outsourcing

To address the themes that the invitation lays out for our panel, this memo focuses on how (FDI and outsourcing) globalization affects and is affected by national labor market policies and institutions – especially welfare states and regulatory standards. For the comparative political economists in our midst, of greatest interest here is whether and under what conditions international investment (and globalization generally) constrains, spurs, or has little to do with national welfare states and regulatory policies that define industrialized polities. For the international political economists among us, of greatest interest is whether and under what conditions such national policies and institutions may help politically legitimate sustaining or deepening international economic openness. My goal here is to give a flavor of the arguments and empirical evidence in contemporary debate over these broad questions, and to identify the value-added of new surveys of workers, unions, firms, and legislators. I'll argue, fleetingly of course, that the debate remains very open on these issues, with continuing division over whether and when (FDI and outsourcing) globalization and welfare-policy and labor standards spur one another, constrain one another, have little to do with one another, or affect one another contingent upon other mediating conditions. And I'll argue that new survey instruments could significantly help move some, but certainly not all, parts of this debate forward.

1. The political economy connecting FDI and outsourcing to welfare and labor standards.

There are literatures focused directly on how globalization affects welfare states, on how globalization affects labor and environmental regulations, and on how welfare states and regulatory standards affect support for openness. But they all build on claims about how investment and other faces of globalization have distributional consequences affecting preferences and demands for compensation, and on claims about how such investment affects investor, employer and government provision of such compensation. Before turning to the literature directly addressing how (FDI) globalization affects and is affected by welfare and regulatory conditions, it is worth briefly addressing these "demand" and "supply" issues connecting openness to national standards.

As for distributional effects of FDI and outsourcing that might fuel demands for protectionism or compensation, my (less than expert) interpretation is that the jury is very much out. To the extent that FDI and outsourcing have been driven by differences in factor endowments -- such as multi-nationalizing the value-added chain (sometimes called "vertical" investment) – one might expect, following Stolper-Samuelson reasoning, that the distributional consequences could be sharp, shifting levels of labor demand that entail substantial up-skilling in OECD economies (c.f. Feenstra and Hanson 1996). But plenty of research suggests that FDI or outsourcing more commonly serve other goals, such as tailoring to local markets (roughly speaking, "horizontal" investment), resource extraction, tariff-jumping or other conditions – where the distributional consequences are more modest or at least different than a Stolper-Samuelson framework would imply (Markusen 1995; Dunning 1981; Hanson et.al. 2001; Slaughter 2002). For instance, plenty of argument and evidence suggest that developed-economies' FDI unleashes as much or more labor complementarity as substitution, implying less uneven wage and employment effects (Hanson et.al.2001). However, as soon as one considers how FDI affects the *elasticity* rather than the *level* of labor demand – by virtue of making it easier for capital to shift foreign for domestic employment in the labor-capital mix for production – we have a different story. Here, even the threat of exit may significantly increase wage or employment volatility and worker insecurity, and increase investor and employer bargaining power on non-wage working conditions and policies – whether the FDI/outsourcing is vertical, horizontal, or whatever else. The depth and nature of these elasticity effects are unclear in terms of actual measures of volatility – c.f. Iverson and Cusack's claims that openness has little correlation with wage and aggregate growth volatility. But the effects for perceived insecurity among workers appear quite strong (Scheve and Slaughter 2004a).[1]

And this brings us to an equally important part of the "demand side" – work directly studying subjective worker insecurity, measured with several kinds of questions about satisfaction with income and job security (available in a range of both single country and multi-country surveys, e.g. Eurobarometer). Scheve and Slaughter's work suggests that globalization generally, and FDI especially, increase perceived, if not objective, insecurity of workers (2001; 2004a). Similarly, others have found worker insecurity to be increasing in trade and other measures of openness as well, perhaps reflecting again elasticity as opposed to levels of labor demand (Aldrich et.al. 2002, 2003). And important for debate over whether welfare provision might sustain support for openness, Christopher Anderson's study of perceived economic insecurity suggests that more generous welfare states (though not more spending *per se*) decrease insecurities and decrease the degree to which openness increases insecurity (Anderson 2004; Anderson and Pontusson 2003). Even if FDI's distributional consequences remain unclear, therefore, plenty of theory and evidence suggest that increasing elasticity of labor demand associated with such investment will increase worker insecurities relative to employers and capital. And with theory and some evidence to suppose that some welfare standards reduce insecurity,[2] there's basis for the idea that FDI and such welfare may be mutually reinforcing.

But, of course, equally important is what governments and investors will tolerate or support under conditions of openness. On this more "supply" side of the politics connecting investment to welfare states and regulation, the story is somewhat less developed. There is, as I shall discuss momentarily, plenty of research investigating how actual or potential FDI and outsourcing tend to reward or punish various regulatory and institutional standards – and/or how governments reward or punish such standards given their real or perceived constraints posed by international investment openness. And here, of course, there's debate about whether various elements of the welfare state or labor regulations are consciously or unconsciously rewarded, punished, or irrelevant to investment choices of employers or policy choices of governments. There's also ongoing debate about how much FDI flows, capital-account openness, or other kinds of globalization affect tax burdens, budget deficits, and interest rates – all of which are possible vehicles by which investors have implications for welfare or regulatory standards further downstream (c.f. Rodrik 1997; Garrett 1998; Mosley 2000; Mutti 2003). But with only a few exceptions, there is no direct study of the actual perceptions of government officials or employers about how and whether welfare policies or regulatory standards are relevant to their calculations about international investment (c.f. Mosley 2000, 2003; Martin and Swank 2005).

Given the wide-open debate on intervening links connecting investment to welfare states and labor standards, more survey research could make a significant contribution. Using existing survey instruments one could do more to investigate not only how general FDI incidence or levels affect insecurity of workers generally, but how various kinds of FDI, outsourcing and other kinds

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[1] Complicating matters is recent work that the adjustment costs associated with job-switching across sectors might significantly increase and change the distributional consequences of openness for workers – and the politics connecting openness to welfare and standards as a result (Davidson and Matusz 2004).

2 I know of no studies of how *sub-categories* of welfare provision, or how any labor standards, affect insecurity.

of openness affect perceived insecurities among workers in various settings – different sectors, regions, etc. Also using existing instruments, one could investigate how different welfare state provisions *and various labor market regulations* affect subjective insecurity. But for such improvements, there's need for better survey instruments – better measures of economic insecurity and more detailed measures of respondents' industry of employment, comparable across countries (more on this below). And survey of union representatives would allow direct investigation of (politically-relevant) social actors that might express member insecurity under openness, and may express attitudes about openness differing from individual citizens. On the "supply" side, there is serious constraint on what employers would be willing to divulge given their legal and economic incentives to protect their business strategies. But new surveys might well assess how managers assess the relevance, value or threat of various welfare programs or labor standards for the competitiveness of their firms. Legislators, in any event, can be asked their opinions of various elements of welfare and standards, and policies regulating globalization.

2. Direct study of how (FDI and outsourcing) globalization and welfare states interact

The literature directly addressing how FDI and other faces of globalization affect and are affected by welfare states – more or less informed by the work looking at the intervening links above – is quite developed. Most of this work is focused on how globalization affects welfare, where trade and general capital openness tend to get more attention to the details of FDI or outsourcing. But there is a wide range of theory and evidence supporting four perspectives. The first is that investment (and other) openness sustains generous welfare states, because openness poses risks and insecurities that fuel compensation demands that investors and governments in turn tolerate or actively champion (Katzenstein 1985; Rodrik 1998; Garrett 1999). The second perspective is that FDI and other faces of globalization constrain welfare states, usually because any possible increases in compensation demands are decreasingly met by investors and/or governments trying to contain budget deficits, avoid interest-rate premiums or trying to sustain an international competitiveness (Ruggie 1991; Rodrik 1997; Korpi and Palme 2002; Scruggs 2004).[3] The third perspective is that FDI and other faces of globalization leave welfare states unscathed, either because openness remains relatively modest, or because it takes forms that have modest distributional consequences (Krugman 1996; Wade 1996; Iversen and Cusack 2000).

A fourth and growing perspective is that globalization's implications for welfare states are mediated by various political or institutional conditions.[4] Garrett 1998, for instance, emphasizes that capital and trade openness will have increasingly positive effects for welfare provisions with rising power of Left parties and labor movements (union density and centralization), by increasing political voice of internationally-vulnerable welfare demanders and by buying labor peace and wage moderation that employers reward. Swank 2002 suggests a similar logic with respect to the mediating roles of electoral representation (proportional representation and number

[3] Iversen and Cusack 2001 suggest that globalization might reward more highly-skilled while hurting low-skilled workers in these economies, thereby diminishing the preferences of middle class voters that constitute the back-bone of broad coalitions sustaining welfare states.

[4] Although not focusing on mediating conditions *per se*, Burgoon 2001 suggests that globalization will have contingent implications for welfare states because FDI and other openness spark interaction between workers, employers and governments that vary across sub-elements of welfare, constraining some while spurring others. And a number of others suggest that globalization will tend to elicit more modest compensation demands in developing than the OECD countries, due to the distributional consequences of openness and political economic representation (Rudra 2002; Fernandez-Alerbertos 2002; Garrett 2000)

of legislative parties), corporatism, and decentralization of policymaking (i.e. veto points). Mares 2004 suggests that state capacities to actually implement meaningful (social) policies will mediate the extent to which vulnerable groups see welfare compensation as viable, suggesting that less corruption and more state capacities will increase the degree to which openness stimulates rather than constrains welfare generosity. And Adsera and Boix 2002 and Boix 2004 argue that welfare compensation and protectionism are substitutes for addressing risks of openness, and that the choice of one or the other depends on other conditions, including democracy but also historically-contingent bargains among parties and their electorates.

Most of this debate has evolved via large-n cross-sectional or TSCS studies, with national-level measures of welfare provision regressed on measures of globalization. Measures of welfare and total spending have received most of the attention, here, but occasionally there are studies that develop more direct measures of welfare generosity (c.f. Mares 2004; Gaston and Nelson 2004; Scruggs 2004). And on the RHS, most attention has gone to aggregate measures of flows (e.g. total FDI as % GDP), with fewer studies considering policy measures of “openness” to such flows (e.g. tariff levels in Adsera and Boix 2002 and Rodrik 1998; liberalization index in Fernandez-Albertos 2002; measures of capital-account openness Garrett 1998, Rodrik 1997, etc.). But qualitative case studies have also played an important role in this debate, mainly revealing intervening links and process-tracing of how globalization plays out in political struggles over policy. Importantly, survey instruments have *not* been used in this work, [5] though the work on survey work on perceived insecurity has clear relevance here.

There is also, in any event, growing attention to how welfare states affect globalization – though here most of the work is focused on trade, not investment. In addition to the many qualitative accounts of how welfare policy may have bought public support for increasing openness (Ruggie 1982; Bordo et.al. 2001), a few studies consider the old “embedded liberalism” argument by large-N estimation with measures of openness on the LHS and welfare on the RHS (c.f. Mosher 2004). And there are a few studies that analyze survey data on support for trade openness, and have found that some measures of welfare provision positively correlate with individual support for openness. Scheve and Slaughter 2004b, for instance, find modest evidence that national-level averages unemployment insurance benefits correlate positively and significantly with national averages of public-opinion support for trade openness. And Hays et.al. 2005 finds that individual-level welfare benefits (based on within-country variation in replacement rates) correlate positively with support for free trade. Some research has also begun to consider how a given compensation mechanism might play out differently for public support of different elements of openness (c.f. Hanson et.al. 2005.). In any event, plenty of other research suggests reasons to be cautious about concluding that more generous welfare or other kinds of compensation will buy openness. With respect to public support for openness there’s the possibility, for instance, that material conditions of individuals or polities matter much less than more ideational and informational processes (c.f. Nelson 2002, 2003). And there are in any event concerns over how such benefits might affect actual mobility and sector-exit rather than general tastes for openness (Magee 2002; Davidson et.al. 2004). But this is an area of research that is much less developed than that on how globalization affects welfare compensation.

Despite this pretty developed and nuanced debate, my own conclusion is that the jury is still out on the issue, not only over what mediating conditions might affect the relationship between welfare and globalization, but also whether the relationship is in general positive,

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[5] Two recent papers of mine try to do this by analyzing individual-level support for welfare policies, regressed on measures of trade and FDI openness (Burgoon 2004 using NES data; Burgoon 2005 using Eurobarometer data).

negative or insignificant. Continuing case or aggregate large-N research may do plenty to adjudicate such debate – for instance as more research focuses on more recent and better measures of investment and other kinds of globalization and of welfare generosity and provision. And plenty of available data relevant to the debate remain untapped – such as comparative party manifestos on partisan support for welfare and for international economic openness.

But more and better survey research also has an important role to play in moving the debate forward. Existing survey instruments, for instance, have plenty of information, some even comparable across countries, on individual support for welfare programs. And these could be used to consider not just how various measures of (FDI) globalization affect insecurity, but how individual insecurity affects support for welfare programs, and how rough measures of openness (based on occupational or rough industry position) affect support for such programs. In any event, the quality of existing survey data is poor with respect to cross-nationally comparable questions about support for welfare programs (with questions often stated in terms of "more or less" welfare, where answers will be influenced by *ex ante* welfare levels) and with respect to information on international economic position of respondents (with existing information on employment completely lacking or at a very high level of aggregation, such as 12 industry categories in Eurobarometer data). New survey questions, therefore, that provide better, more internationally-comparable and fine-grained measures of welfare attitudes and sector of employment could make a big difference to the debate. New surveys could also address new categories of questions, to assess not only general support for welfare compensation but also how individuals trade-off compensation for welfare, and to assess not only support for a range of trade and investment policies and states-of-the-world. And more ambitiously still, surveys of unions, firms and legislators would provide an even bigger service to debate about globalization and welfare, by revealing how openness affects elite support for welfare provisions and how welfare provisions affect elite support for openness among the political actors more active in struggles over both – and for whom we currently have virtually no survey data.

3. Direct study of how (FDI) globalization and labor standards interact

Finally, although much less developed than the literature on globalization and welfare states, the academic debate over how (FDI) globalization affects and is affected by labor standards also divides those who expect and find that the relationship is negative ("race to the bottom"), is positive ("race to the top"), is basically unimportant ("no clear race at all"), or has effects that vary according to mediating conditions or contingencies ("it depends"). Popular hype and a minority of academic research support the race-to-the-bottom view, emphasizing how investors might seek and how governments and labor representatives might "accede to" lower the non-wage labor bill and labor protections for the sake of perceived competitiveness (Mah 1997; Rodriguez and Samy 2002). Some research supports the opposite view that trade and investment globalization's negative effects are offset by tendency of FDI to reward higher quality labor and to yield some up-skilling (even in developing settings) that may well increase standards (Rodrik 1996; Busse and Braun 2003). The majority of existing research reasons and has found that FDI and other faces of globalization tend to have, at most, mixed, and generally very modest, effects for labor standards – given the neutral preferences of investors with respect to standards and the more important role of domestic standards like democracy, civil-rights and general economic development (Kucera 2002; Oman 2000; Dehejia and Samy 2004; Arestoff and Granger 2004; Mosley and Uno 2004). And at least a few studies have begun to consider how and whether FDI might affect labor standards depending on particular kinds of FDI (Mutti 2003, Mosley and Uno

2004) and mediating political conditions such as the monitoring role of NGOs (Mosley and Uno 2004), though there is, as yet, no significant evidence for these contingencies.

The empirical support for these competing lines of argument tend to be large-N studies of various measures of labor standards on the one hand, and FDI and other measures of openness on the other – with roughly equal shares considering various FDI measures as opposed to labor standards on the LHS. The quality of these studies is getting better as researchers are developing better, more detailed, and more comparable measures of labor standards – for instance, not just ILO convention ratifications, but measures of implemented standards or violations (Kucera 2002; Neumayer and de Soysa 2003; Mosley and Uno 2004; Cingranelli and Richards 2004).

Swinging free of basic data limitations, however, basic issues remain unaddressed in this debate. For instance, there has been no attention to the compensatory role that labor standards (like rights of association or collective bargaining) might play as an imperfect substitute for protection or welfare compensation – by addressing the risks associated with FDI or other openness – such that openness might increase (support for) standards. Similarly, there is no research to my knowledge on how such regulatory standards affect support for FDI or other kinds of globalization – even though the argument can be made that this kind of "embeddedness" is as or more important to buying "liberalism" as are welfare states. And in general, there are plenty of other, hitherto unexplored candidates for possible conditions that might mediate whether openness constrains or spurs regulatory labor standards – including many of the institutional (e.g. PR, party structure) and partisan ("Left Labor power") conditions identified above.[6]

Some of these silences could fruitfully be explored using the (improving) data on country-year labor standards and more fine-grained measures of FDI in a CS, TS or TSCS framework. But surveys could also make a contribution. Existing survey data can reveal whether nationally- or sector-varying measures of labor standards correlate with individual-level subjective insecurities or support for globalization. But new survey instruments are necessary to provide information on attitudes towards various kinds of labor standards among individuals, union representative, firm representatives or legislators. And this would allow building up the "demand" and "supply" side political economy that would allow more detailed testing of how globalization and labor standards affect one another.

In short, the kinds of new surveys contemplated by this project could do a lot to clarify the relationship between welfare states and labor standards on the one hand and FDI, outsourcing and other faces of openness on the other. For surveys of workers, particularly useful would be questions that assess individual attitudes towards various aspects of welfare policies and labor standards in a way that is comparable across countries; coding of individual industry of employment that allow judgments of objective economic conditions; questions that assess subjective economic interest and perceived insecurity; questions that assess attitudes towards various faces of globalization and policies regulating it; and questions that assess how individuals might trade-off various labor standards and welfare protections for direct protections from international trade and investment. And for surveys of union representatives, firms and legislators, particularly useful would be questions that address their own, or their organization/firm/party's valuation of, and political strategies and activities towards, policies and states of FDI and other parts of globalization, and (various) labor standards and welfare effort.

[6] Literature on labor market institutions like unions and collective bargaining practices is more developed in this respect. For instance, Scruggs and Lange 2000 and Oskarsson 2004 identify various broad regulations like replacement-worker laws or Ghent-System union supervision of unemployment insurance that mitigate the degree to which globalization constrains union density.

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