

Globalization and Compensation

Nicholas N. Ray

May 7 2023

Abstract

I argue that political elites have chosen not to compensate the potential losers of globalization because there is either a lack of adequate demand from voters, too low of a threat from populist entrants, or too high of a threat from traditional rivals. Using several proxies for these mechanisms, I test implications on 49 countries from 1990-2020. No evidence is found for the theory but the potential for empirical and theoretical refinements is possibly high.

1 What Needs Explaining

It is argued by many social scientists that there has been a recent and significant increase in illiberalism around the world and, further, that this observation is driven by some combination of economic and cultural preferences that varies across domestic populations.¹ In a stylized example of the economic reasoning, Colantone and Stanig (2018) affirm that globalization and the “Failure to manage the adjustment costs of trade, through effective compensation and redistribution policies, would then drive voters’ dissatisfaction with the incumbent elites” (p.2). Some accounts of rising illiberalism take this story as their departure point, proceeding to explain why voters respond to incumbency failure in the particular way that they do (e.g., voting for the far-right, as in Malgouyres 2017).

However, it is unclear why incumbents “failed” to appease so-called losers of globalization in the first place. Indeed, according to Dani Rodrik (2018) the populist “... backlash was perfectly predictable” (p. 12). So why would political elites, who on average are presumably more educated and more aware of politico-economic phenomena, not compensate the voting losers of globalization policies that they created?

¹All code and data are available in the [GitHub repository](#) with the same title.

More precisely, I want to explain the variation in incumbent responses to accelerating globalization. In [figure 1](#) and [figure 2](#) I present variation in how one type of potential political incumbent, political parties, potentially responded to increasing globalization by making their party platforms more anti-globalist or not. Being “anti-globalist” was measured as scoring higher than a 1 (mean 0.73, sd 1.92) on a combined measure of “negative internationalism” (item per109) and “negative multiculturalism” (item 608) of the Manifesto Project (Lehmann et al. [2022](#)). [Figure 1](#) focuses on countries where popular political parties (more than ten percent vote-share in the legislature) shifted their platforms to become more anti-globalist while [figure 2](#) shows countries with parties that became popular (earning more than ten percent legislature vote-share) only after having an anti-globalist platform.

If one is willing to assume that this exercise taps party efforts to appease losers of globalization and that the voters in each of these countries demand appeasement, then the figures suggest interesting variation in elite behavior. In some countries, like Sweden, already popular political parties presumably failed to adequately appease voters since they lost vote-share to new political parties (i.e., the Sweden Democrats) who were more staunchly opposed to globalization. In other countries, like Austria and the United States (U.S.), already popular political parties managed to adjust and shift party platforms to espouse more anti-globalist sentiment. Without these assumptions, the figures at least show that one type of incumbent political elite, popular political parties, have not exhibited uniform rhetorical behavior despite globalization rising in nearly every country (at least in terms of global trade, see the United Nations Conference on Trade and Development [2022](#)).

This work hopes to contribute to the mired debate on cultural and economic influences on populism or rising political illiberalism by helping scholars better understand why voters have become disillusioned with the status quo in the first place. Instead of departing with the assertion that voters have been failed by incumbent elites and are thus seeking some specific alternative, it is helpful to first know how and why elites may have failed to respond in comprehending the exact aftermath of this failure. In other words, the typical story that

rising globalization hurt segments of the population who then turned to alternative forms of politics does not fully explain why incumbent elites did not offer recompense, especially in cases where new rivals emerged to do so. The behavior of these incumbent elites was likely instrumental in shaping the alternatives available to voters and the expectations of those voters, making it imperative to fully comprehend incumbent behavior if studying the performance of their newcomer rivals.

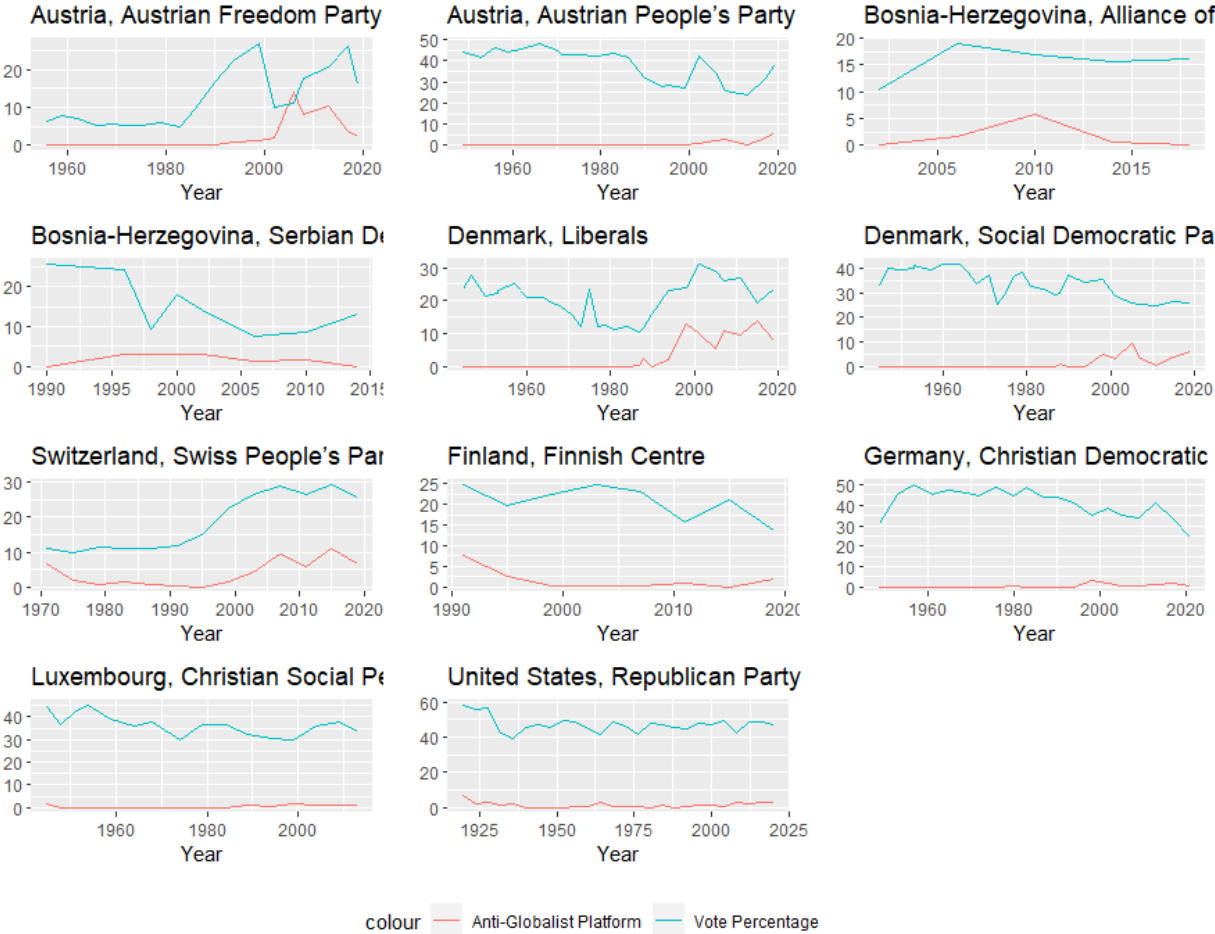


Figure 1: Countries with political parties that scored higher than a one on “anti-globalism” after they have already possessed more than the ten percent vote-share threshold for popular or incumbent status.

2 Why It Needs Explaining

Globalization is typically thought of as a process of growing interconnectedness between countries, usually discussed in terms of the outcomes it produces. Sociologists may focus on how globalization is the increasing similarity of cultures or social structures worldwide, for instance (e.g., Robinson 1998). For the purposes of this paper, I will largely be referring to the economic results of globalization, such as increasing trade and the integration of markets.

Whether it is a substantial influx of imports from distant countries or exporting production to previously closed economies, these by-products of globalization have distributional consequences. Particularly, globalization can be associated with job losses for workers of only a particular sector (e.g., Margalit 2011; Autor et al. 2020) or wage reductions for certain industries from automation (e.g., Broz, Frieden, and Weymouth 2021), for example. For these reasons, it is theoretically stipulated that governments will redistribute some of the gains from the trade to avoid increasing inequality or affecting other negative externalities (Rodrik 2018, pp. 16-17). Hypothetically, redistribution could occur through tax and transfer schemes or preserving current redistributive things that are thought to be vulnerable to globalization, such as welfare.

The typical story as to why compensation does not occur as theorized is because it is costly and the government has little incentive to compensate losers of trade deals after already gaining their consent to sign them (Rodrik 2018, p. 17). However, costliness and attractive false promises do not sufficiently explain why political leaders refuse compensation for at least two reasons: the cost is borne by the government at large (i.e., others) and political leaders are also often members of political parties subject to electoral competition. While compensation may be “costly” in the abstract, the money required for border control (to secure welfare benefits for current citizens) or the implementation of taxes and transfers (to directly redistribute trade gains) does not cost anything for the individual politicians in the party vulnerable to rivals offering such compensation. In fact, if their party was beat in upcoming elections and subsequently lost their position in government, these politicians

would have little to no access to government funds and experience the truly costly inability to fulfill campaign promises and maintain both office-seeking and policy benefits.

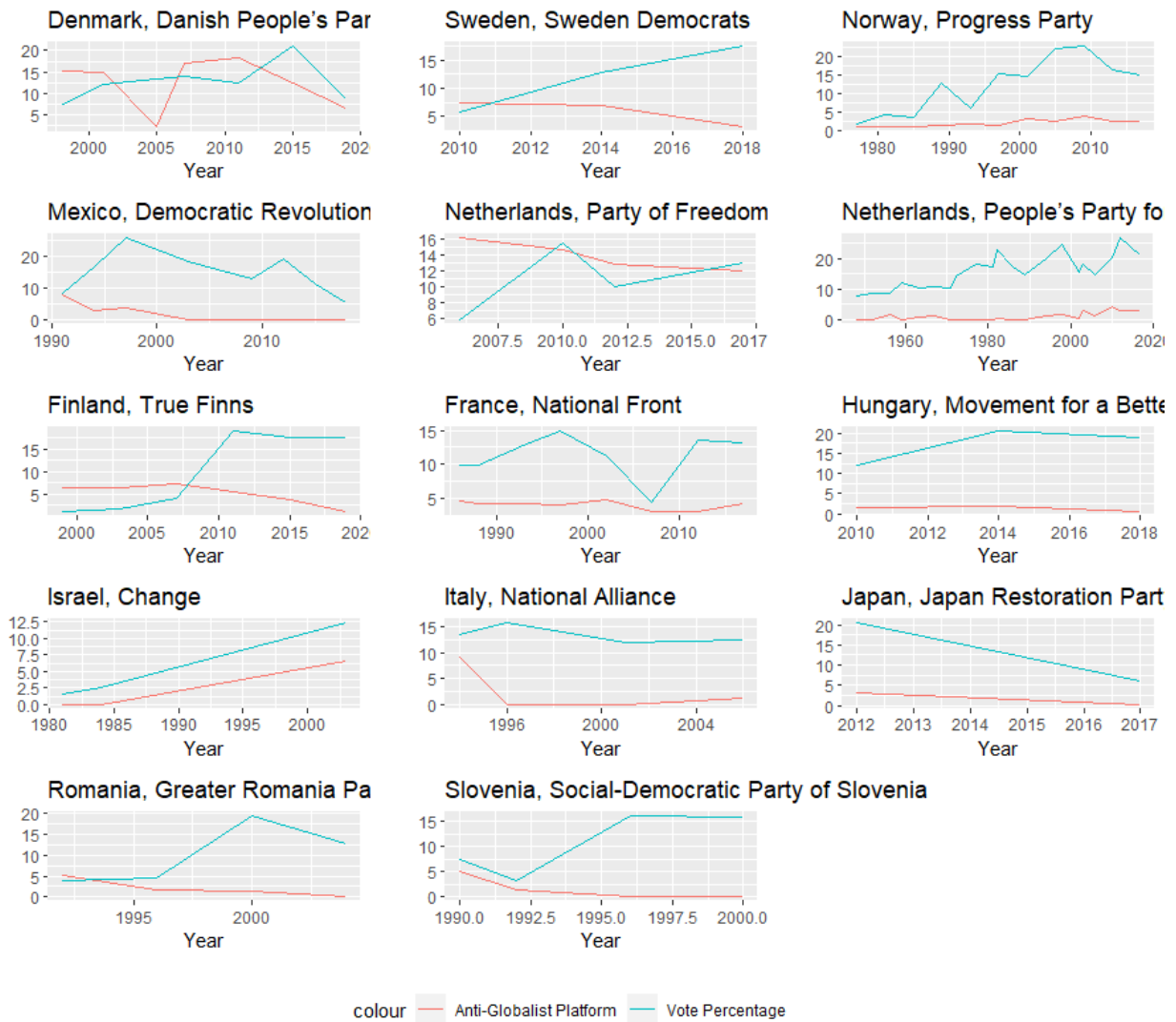


Figure 2: Countries with political parties that scored higher than a one on “anti-globalism” as they crossed the ten percent vote-share threshold for popular or incumbent status.

Thus, the decision not to compensate must instead be between the probability of losing office to others who are willing to compensate (e.g., new populist entrants) and the probability of alienating voters who do not seek compensation and losing office to more traditional rivals. In other words, party leaders must either have relatively high expected costs to changing their policies to suit the losers of globalization or relatively low expected costs of doing nothing if they are observed not to compensate. Below I offer three potential explanations for why these probabilistic costs may be relatively high or low and subsequently, why incumbents have not compensated losers of globalization.

3 Potential Explanations

Political leaders, often being members of political parties and thus party leaders, have a trade-off to face when considering compensating the losers of globalization. I argue that this trade-off is captured by the following simple relationship:

$$\mathbb{E}[\text{compensate}] = \mathbb{E}[\text{Pr}(\text{nothing}) - \text{Pr}(\text{change})], \quad (1)$$

where political leaders engage in compensation when the expected probability of losing office from not compensating (i.e., doing nothing) is higher than the expected probability of losing office from changing their party platforms to appease certain constituents through compensation (i.e., changing their platforms).

I argue that there are three main ways in which the expected benefit of compensating losers is negative. Firstly, there may be inadequate voter demand for compensation such that the probability of losing office from doing nothing is sufficiently low. Secondly, there could be high (low) electoral thresholds such that new, populist entrants are less (more) likely, decreasing (increasing) the probability of losing office to new entrants who can offer compensation. Thirdly, international constraints could make compensatory changes to policy particularly alienating for voters such that there is a higher expected probability of losing

office from traditional rivals.

3.1 Demand-side

In an interesting investigation into the redistributive demands of voters in California, U.S., Thomas Flaherty (2022) finds evidence that voters support redistribution only after being exposed to inequality at the local level. Building on this idea that voters may not always support redistribution and assuming that the economic consequences from globalization are locally distributed in different ways between countries, it is possible that the losers from globalization in a particular country are unable or even unwilling to collectively push for compensation from political leaders. This would decrease the probability that these leaders lose office to rivals who may offer compensation, leading them to do nothing and not engage in compensation.

If it were true that political leaders failed to employ compensation because voters were collectively hampered in calling for compensation due to local distributions of inequality, it should also be true that observed party platforms should become more anti-globalist as inequality spreads at the local level.

H_1 : Party platforms should become more anti-globalist as inequality rises across (2)
a greater number of local units.

3.2 Supply-side

3.2.1 Threats from Entry

Institutional factors can affect the probability that political leaders lose office to newcomers who may offer compensation. In particular, lower electoral thresholds, or the minimum percent vote-share required for a party to be considered in an election, may be a determinant of how new parties arise that could challenge incumbents on the issue of compensation. I

argue that lower electoral thresholds should make it more likely that if a political leader decides against compensation, then a new party can enter to offer compensation and increase the probability the political leader loses office from doing nothing. That is, as electoral thresholds rise, compensation should be less likely to occur in expectation.

If it were true that higher thresholds make compensation less likely, it should also be true that observed party platforms will become less anti-globalist across countries as electoral thresholds increase.

H_2 : Party platforms will become less anti-globalist as electoral thresholds rise across (3) countries.

3.2.2 International Constraints

I further argue that a country's position on the global stage can make it costly for political leaders to change party platforms to compensate citizens. Depending on the form of compensation, taking action to protect potential losers can upset international allies or cause a country to lose status on the international stage. For example, if a country attempts to prevent immigration to protect redistributive benefits for current citizens, it could damage relations with neighbors or international organizations. To the extent to which Italy is attempting to stem immigration to compensate citizens for globalization losses, they serve as an example of how domestic compensatory policies can spurn international backlash (see European Union warnings to Italian PM Meloni Neely and Kerry 2022). Compensation could also be executed by first taxing richer citizens or corporations. Doing so, however, has proved difficult for the Biden administration in the U.S., who face possible capital flight if they raise corporate taxes (see White 2021). Consequences like these may alienate traditional supporters of parties who do not demand compensation, thus raising the probability the political leaders will lose office to more traditional rivals who will not offer compensation.

If this were true, then I claim that it should also be true that countries more reliant

on globalization for political or economic success will have more constraints on the ways in which they can compensate domestic losers of globalization. If countries are more reliant on the international system, meaning perhaps they depend on foreign aid, are weaker members of alliances, or do not have abundant natural resources, then political leaders risk harming constituents who do not need compensation by taking compensatory action that damages the country on an international scale and increasing the probability that they lose to traditional rivals.

H_3 : Countries that are more economically independent will be more able to (4)
compensate losers of globalization and thus have more political parties that
change their party platforms to be more anti-globalist.

4 Research Design

To operationalize these hypotheses I used the following proxies. For inequality's relationship to changes in party platforms (H_1), I collected observational data on inequality (Chancel et al. 2022) at the country-level. The specific measure is the proportional of the wealth owned by the top one percent of the country's population. While the implication describes inequality at local levels, higher country-level inequality may be proxy for local-level inequality. For (H_2), that party platforms should become less anti-globalist as electoral thresholds increase, I collected data on election systems (Golder and Bormann 2022; Bormann and Golder 2022) and used a measure for the effective number of political parties in the legislature. When electoral thresholds are low, there should be a larger number of political parties in the legislature, on average. I collected observational data on gross domestic product (GDP) per capita (United Nations Statistics Division 2019) to proxy for economic independence, as in (H_3). I argue that GDP is an adequate proxy because countries with more wealth should be more free to compensate citizens as they please, since the international ramifications from

curbing globalization should be cheaper for these countries.²

My empirical model is as follows:

$$\text{Platform}_{it} = \alpha_i + \beta_1 \text{Inequality}_{it} + \beta_2 \text{Parties}_{it} + \beta_3 \text{GDP}_{it} + \lambda_t + \varepsilon_{it}, \quad (5)$$

where the average level of anti-globalism (as described earlier) of all party platforms (Platform) in a given country (i) and year (t) is a linear function of country specific intercepts (α_i), the common effect of inequality in a country-year ($\beta_1 \text{Inequality}_{it}$), the common effect of the number of parties in a country-year ($\beta_2 \text{Parties}_{it}$), the common effect of GDP per capita in a country-year ($\beta_3 \text{GDP}_{it}$), year effects (λ_t), and an independently and identically distributed, random disturbance (ε_{it}). In accordance with the respective hypotheses, β_1 should be positive and significant, β_2 should be negative and significant, and β_3 should be positive and significant.

None of the hypotheses find support in table 1. Interestingly, the coefficients on β_1 and β_3 are statistically different from zero and in the opposite direction of the respective hypotheses. That is, it appears that inequality and GDP per capita are inversely related to how “anti-globalist” the average party platform is in a country-year. The coefficient associated with H_2 , β_2 , is in the correct direction but not statistically distinguishable from zero.

²The countries included are Albania, Armenia, Australia, Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Moldova, Montenegro, Netherlands, New Zealand, North Macedonia, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, and the United States.

Table 1:

<i>Dependent variable:</i>	
Anti-Globalist Platform	
Inequality	-1.11*** (0.363)
Effective Parties	0.0034 (0.0039)
Logged GDP per capita	-0.338*** (0.081)
Constant	2.56 (0.585)
Observations	1,519
R ²	0.446
Adjusted R ²	0.415
Residual Std. Error	0.796 (df = 1437)
F Statistic	14.308*** (df = 81; 1437)

Note:

*p<0.1; **p<0.05; ***p<0.01
Panel-corrected Standard Errors in Parentheses

5 Discussion

There are two takeaways for future research. Firstly, the empirics of this paper should be improved to help determine if the proxies employed were mismeasures of the true phenomena of interest, the empirical model is otherwise misspecified, or the dependent variable is inappropriate for testing the implications. Theoretical temporal and spatial lags of the variables should also be considered.

Secondly, barring possible empirical improvement, there should be substantial reconsideration of the theory advanced here given the tests of its implications. Without more evidence, it still remains largely unexplained why political incumbents would refuse to compensate voters who are worse off from policies they created that advanced economic integration. There are other “types” of political incumbents besides the party leaders and their associated party platforms considered here and other measures of compensation that should be analyzed besides rhetorical party platforms. All of these refinements should be explored before drawing strong inferences from this line of research.

References

- Autor, David, David Dorn, Gordon Hanson, and Kaveh Majlesi (2020). “Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure”. *American Economic Review* 110 (10), pp. 3139–3183. DOI: [10.1257/aer.20170011](https://doi.org/10.1257/aer.20170011).
- Bormann, Nils-Christian and Matt Golder (2022). “Democratic Electoral Systems around the World, 1946–2020”. *Electoral Studies* 78, p. 102487. DOI: [10.1016/j.electstud.2022.102487](https://doi.org/10.1016/j.electstud.2022.102487).
- Broz, J. Lawrence, Jeffrey Frieden, and Stephen Weymouth (2021). “Populism in Place: The Economic Geography of the Globalization Backlash”. *International Organization* 75 (2), pp. 464–494. DOI: [10.1017/S0020818320000314](https://doi.org/10.1017/S0020818320000314).
- Chancel, Lucas, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman (2022). *World Inequality Database*. In collab. with Esther Duflo and Abhijit Banerjee. URL: <https://wid.world/data/>.
- Colantone, Italo and Piero Stanig (2018). *The Economic Determinants of the ‘Cultural Backlash’: Globalization and Attitudes in Western Europe*. DOI: [10.2139/ssrn.3267139](https://doi.org/10.2139/ssrn.3267139). preprint.
- Flaherty, Thomas M. (2022). *Micro-Spatial Inequality and Redistribution: Evidence from the California Millionaires Tax Propositions*. URL: <https://www.thomasflaherty.com/research>.
- Golder, Matt and Nils-Christian Bormann (2022). *DES Version 4.1*. URL: <http://mattgolder.com/elections>.
- Lehmann, Pola, Tobias Burst, Theres Matthieß, Sven Regel, Andrea Volkens, Bernhard Weßels, Lisa Zehnter, and Wissenschaftszentrum Berlin Für Sozialforschung (WZB) (2022). *Manifesto Project Dataset*. Version 2022a. Manifesto Project. DOI: [10.25522/MANIFESTO.MPDS.2022A](https://doi.org/10.25522/MANIFESTO.MPDS.2022A).
- Malgouyres, Clément (2017). *Trade Shocks and Far-Right Voting: Evidence from French Presidential Elections*. DOI: [10.2139/ssrn.2942173](https://doi.org/10.2139/ssrn.2942173). preprint.

- Margalit, Yotam (2011). “Costly Jobs: Trade-related Layoffs, Government Compensation, and Voting in U.S. Elections”. *American Political Science Review* 105 (1), pp. 166–188. DOI: [10.1017/S000305541000050X](https://doi.org/10.1017/S000305541000050X).
- Neely, Jason and Frances Kerry (2022). “EU’s von Der Leyen Delivers Veiled Warning to Italy’s Right Wing”. *Reuters. Europe*. URL: <https://www.reuters.com/world/europe/eus-von-der-leyen-delivers-veiled-warning-italys-right-wing-2022-09-23/>.
- Robinson, William I. (1998). “Beyond Nation-State Paradigms: Globalization, Sociology, and the Challenge of Transnational Studies”. *Sociological Forum* 13 (4), pp. 561–594. JSTOR: [684864](https://www.jstor.org/stable/684864). URL: <https://www.jstor.org/stable/684864>.
- Rodrik, Dani (2018). “Populism and the Economics of Globalization”. *Journal of International Business Policy* 1 (1-2), pp. 12–33. DOI: [10.1057/s42214-018-0001-4](https://doi.org/10.1057/s42214-018-0001-4).
- United Nations Conference on Trade and Development (2022). *Global Trade Hits Record High of \$28.5 Trillion in 2021, but Likely to Be Subdued in 2022 — UNCTAD*. URL: <https://unctad.org/news/global-trade-hits-record-high-285-trillion-2021-likely-be-subdued-2022>.
- United Nations Statistics Division (2019). *Per Capita GDP at Current Prices - US Dollars*. data.un.org. URL: <https://data.un.org/Data.aspx?d=SNAAMA&f=grID%3A101%3BcurrID%3AUSD%3BpcFlag%3A1>.
- White, Martha (2021). “Yellen Pushes for Corporate Tax Floor among G20 Countries to Create ‘More Level Playing Field’”. *NBC News*. URL: <https://www.nbcnews.com/business/economy/yellen-pushes-corporate-tax-floor-among-g20-countries-create-more-n1263090>.