ECONOMIC OPENNESS, JOB INSECURITY AND THE WELFARE STATE:
A MULTILEVEL ANALYSIS IN 25 EUROPEAN COUNTRIES

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ABSTRACT

The compensation hypothesis is the most well known explanation of the empirical evidence showing a positive relationship between economic openness and the welfare state. This article argues that the core assumptions of the hypothesis can be tested with two hypotheses: (1) economic openness at the national level increases job insecurity at the individual level and (2) job insecurity at the individual level increases public spending at the national level. The combination of these two hypotheses should account for the positive relation between economic openness and public spending at the national level. Combining data from the European Social Survey (ESS), the KOF Index of Globalization, and the International Monetary Fund (IMF) allowed testing the two hypotheses on a sample of 25 European countries. The multilevel analysis shows no support for the hypotheses leading to the conclusion that the basic assumptions of the compensation explanation need to be reconsidered.
Most empirical studies examining the impact of globalization on the welfare state find a positive relation between a country’s level of economic openness – for instance in terms of international trade and foreign direct investments – and its level of public spending (Garrett 1995, 1998; Hicks and Swank 1992; Huber and Stephens 2001; Quinn 1997; Rodrik 1998; Swank 1998). The standard explanation for this empirical regularity is referred to as the “compensation hypothesis” (Cameron 1978; Katzenstein 1985) arguing that economic openness increases the risks that citizens face due to turbulence in the world market and that social insurance arrangements covering these risks increase government expenditures in turn (Rodrik 1998). This hypothesis is not trivial and sharply contrasts with the “race to the bottom” hypothesis based on the proposition that, under the condition of economic openness and capital mobility, countries will no longer be able to maintain high tax levels required to fund the welfare state because a race to the bottom will take place (e.g. Bowles and Wagman 1997). Even though this competing view received a lot of attention in public and scientific debates, the compensation hypothesis is now well established in the literature due to its theoretical soundness as well as the empirical evidence supporting it.

Notwithstanding these research achievements and the central place of the compensation hypothesis in the literature, there are also some unsolved issues in this line of research that need further exploration. Most and for all, the current literature shows that the interpretation of the empirical studies is based on a number of assumptions that are not fully tested themselves in one empirical study combining all the variables of the hypothesis. In particular, the argument rests on the proposition that a higher level of insecurity (now and again related terms like uncertainty and risk are used) explains the positive relationship between economic openness and public

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spending. As such, the complete compensation hypothesis includes variables at the national level – economic openness and public spending – and variables at a lower (individual) level, such as the insecurity experienced by individuals and their demand for social insurance. This state of affairs clearly differs from the majority of the empirical studies in this field since most of them analyze variables at the national level and do not include the individual level variables explaining the outcomes. For instance, Rodrik (1998) provides a test of the compensation argument, but does so by investigating the effects of economic openness interacted with two indicators of external risks, namely volatility of terms of trade and the product concentration of exports. These two indicators positively affect public spending leading to the conclusion that it confirms the compensation argument. Nevertheless, they are rightfully termed external risks whereas the argument of social insurance assumes that these external risks translate into internal risks and insecurity, whereas in this case the empirical test remains at the national level and does not move to the individual level to explain the relation between economic openness and public spending. In additional studies focusing on the effects of economic openness, most researchers did not include variables measuring internal or external risks and took the assumption that economic openness causes risk for granted. Other researchers take this assumption even a step further and include insecurity in their definition of economic globalization (see for example the contribution to the volume edited by Blossfeld, Klijzing, Mills, and Kurz 2005), without actually investigating the link between the two (see also Brady, Beckfield, and Zhao 2007). In this segment of the literature, openness and insecurity are part of the same phenomenon, leaving no room for testing the impact of one on the other.
To date, there is only one empirical study deviating from this state of affairs by directly addressing the issue of the effects of national level economic openness on individual level insecurity. In this particular study, Scheve and Slaughter (2004) investigate whether foreign direct investments (FDI) affect subjective job insecurity using panel data from Great Britain for the period 1991-1999 and their analysis shows that economic integration increases job insecurity. Their study has numerous strengths and it is an evident contribution to the field, but besides that, it also raises a number of questions worth answering to further increase the insights regarding the compensation hypothesis. The present article aims at addressing these additional questions by further developing the work provided by Rodrik (1997) and Scheve and Slaughter (2004).

Regarding the question to what extent the study of Scheve and Slaughter (2004) provides a test of the compensation hypothesis three issues are discussed. The first issue concerns the scope of the study and in particular its empirical basis. The hypotheses are tested using data from individuals living in the same country. The longitudinal data are fully utilized by applying panel analyses to it and this is most certainly regarded a strong point of the article since it allows to draw conclusions about the effects of (changes in) economic openness on (changes in) job insecurity. Nevertheless, this analysis is limited to a single country and cannot answer the question to what extent cross national differences in economic openness are related to job insecurity and how this explains variation across welfare states. A second issue is that the study does not test the implication of the compensation hypothesis that increased job insecurity at the micro level results in increased welfare state effort at the national level, as the authors also mention in the conclusion of the article. Since this argument is central to the hypothesis – it actually is the explanation for the
positive relation at the national level – it should also be taken into consideration to ensure that the explanation holds. There is some work in this direction as indicated by two recently published articles do address the relation between individual job insecurity and the level of public spending of countries – namely Anderson and Pontusson (2007) and Erlinghagen (2008) – but since these studies do not include information about economic openness it is not possible to investigate its relation with the other variables. Integrating these different studies should further increase our knowledge of the compensation hypothesis. The third issue involves the dependent variable used in the study. Although this is rather a measurement problem than a point following directly from the hypothesis, a short discussion about it is in place. The study’s dependent variable is people’s satisfaction with the job security they experience. A potential problem with this measure is that it does not indicate the actual job security that people experience but an individual’s evaluation combining the security people think they deserve or may expect for several reasons and what they actually experience. This does give information about individual’s feelings towards their job security, nevertheless there is the possibility that people who have a relatively high level of job security also indicate that they would like the have even more security based on what they expect from their position or the organization they are employed. This raises a question about the validity of this measure, in particular regarding the extent to which it actually indicates job insecurity or instead measures one of the dimensions of job satisfaction.
These observations from the literature are the starting point for the study reported in this article and Figure 1 illustrates how it extends the current research. Figure 1 summarizes the theoretical core of the compensation hypothesis and the main research efforts in this field. As can be read from Figure 1, the hypothesis includes the following propositions about the relations between variables at the national and the individual level: (a) economic openness increases public spending; (b) economic openness increases job insecurity; and (c) job insecurity increases public spending. As such, the compensation hypothesis closely resembles rational choice approaches in the social sciences explaining societal developments from the behavior and decisions of individual citizens (Coleman, 1990). The empirical studies fit into Figure 1 as follows.

The research by Rodrik and others focuses on the impact of economic openness on public spending and thus test relations at the national level as represented by Arrow (a). Arrow (b) shows Scheve & Slaughter’s additional research focusing on the impact of national level economic openness on individual level job insecurity. The relation between public spending and job insecurity – indicated with Arrow (c) – are the subject in the studies by Anderson and Pontusson (2007) and Erlinghagen (2008). These studies provide valuable empirical insights into the compensation hypothesis, but there is no study available integrating the different aspects comprising it. This means that there is fragmented evidence and one can argue that simply putting these pieces of evidence together gives a full account of the compensation hypothesis. To a
certain extent, this is a logical way to proceed. Nevertheless, such an approach does not deal with the issue that Scheve and Slaughter (2004) do not investigate whether the job insecurity they observe leads to welfare state changes, whereas on the other hand Anderson and Pontusson (2007) and Erlinghagen (2008) do not show that the job insecurity they examine results from the economic openness of the countries they studied.

The research effort reported in this article tries to combine this empirical work by including the step from the national level to individual level insecurity as well as the one from the individual level to national level welfare state effort and therefore includes both Arrow (b) and Arrow (c) as an explanation for Arrow (a). To this end, the research provides a cross national investigation of the effects of economic openness on job insecurity – measured as a person’s fear of loosing ones job – and its relation to the welfare state effort of a country using a data set containing information on 18,418 people in 25 European countries.

FROM MACRO TO MICRO: ECONOMIC OPENNESS AND JOB INSECURITY

The compensation hypothesis first involves a step from the national level to the individual level predicting a positive relation between economic openness and job insecurity. With respect to job insecurity, the hypothesis leaves room for two interpretations: either some groups of people experience more job insecurity or there is a general increase in job insecurity affecting a larger number of workers. In both cases, the fear of losing one’s job is central and in accordance with that, job insecurity is defined here are the perceived probability of losing the job in the near future (e.g. Anderson and Pontusson 2007). As noted by other researchers, this kind of insecurity
should be distinguished from actual job loss since they involve different experiences, for instance because the latter is a subjective evaluation whereas the first is an objective occurrence. Furthermore, losing a job is an immediate event while job insecurity can be an ongoing feeling of uncertainty about future events. Following that line of reasoning, some argue that one of the positive impacts of job loss is that it relieves a person from the stress of uncertainty (Jacobson 1991; Sverke, Hellgren, and Näswall 2002).

Research into the causes and consequences of job insecurity as well as the identification of the defining characteristics of it has lead to an extensive research literature. Notably, most of these studies reside at the individual or organizational level (see for instance Ashford, Lee, and Bobko 1989; Davy, Kinicki, and Scheck 1997; Greenhalgh and Rosenblatt 1984; Lim 1996). An implication of this is that discussions are usually framed against the background of organizational responses to rapidly changing environments like downsizing, mergers, acquisitions, and other types of structural change, that are likely to produce increased feelings of insecurity among the workers (Borg and Elizur 1992; Hartley, Jacobson, Klandermans, and van Vuuren 1991; Hellgren, Sverke, and Isaksson 1999).

Studies that go beyond these micro and meso level explanations and that empirically compare several countries are scarce, with the already mentioned studies by Anderson and Pontusson (2007) and Erlinghagen (2008) being the only exceptions to date showing how job insecurity varies across countries and how it is related to national level factors like public spending. Because these studies do not include economic openness, it can be concluded that it is not possible to answer the question whether job insecurity increases thanks to increased economic openness of countries given the current state of the literature. To a certain extent this conclusion is
somewhat surprising realizing that at the same time there is a widespread believe that
the process of globalization, and increasing integration of the world market in
particularly, is a relevant international development causing societal changes. For the
moment, it is unclear how economic openness works out for feelings of job insecurity
in practice and is therefore a matter of theoretical argumentation. One of the most
advanced statements in this respect is that economic openness changes the conditions
of the employment relationship and social stability in general because of an increased
substitutability of workers across national boundaries, weakened domestic norms and
institutions, and a decreased social cohesion (Rodrik 1997). These three arguments
underline that an international development like economic openness affects the
internal structures of societies that shape the conditions for job security. It also shows
the importance of the employment relationship and the expectations that employers
and employees have towards it. This in turn relates to theories of the psychological
contract at work and especially how violations of the contract alter the relationship
between employees and their organization (Robinson 1996; Rousseau 1996). If
economic openness indeed changes the standard employment contract based on long
term employment or if the psychological contract is breached more often than before
– either from the employee’s own experience or as a matter changes they perceive – it
is likely that employees adapt their expectations to that.

Globalization research offers a number of theoretical and empirical insights
that are relevant for the current study. Theoretically, globalization is a
multidimensional process leading to greater interdependence amongst economic,
social and political units (Held, McGrew, Goldblatt, and Perraton 1999; Waters 1995)
and the economic sub dimension of globalization is defined as a combination of
international trade, foreign direct investments, and the absence of trade restrictions
Empirically, research shows that economic globalization is indeed taking place considering several different indicators (Guillén 2001) and that most countries show an increase in economic openness but that the level of economic openness varies across countries as well (Dreher 2006). From the first point it follows that an indicator of economic openness should include several items to fully capture its impact and the last point leads to the observation that job insecurity should also vary between countries; more specifically, the expectation is that the insecurity is higher in economically more open countries.

**FROM MICRO TO MACRO: JOB INSECURITY AND THE WELFARE STATE**

The relation between job insecurity and the welfare state refers to the compensation part of the hypothesis based on the argument that citizens demand social security in exchange for the increased risk resulting from their country’s integration into the world market. Hence, the step from the individual level to the national level closely relates to theories of welfare state support and legitimacy of public arrangements, requiring a closer look at the question why people support government intervention. The possibility of losing the job you hold is one of the risks that people face in daily life and if it happens it usually means that someone needs assistance to maintain a decent standard of living that may be acquired through different mechanisms like the market, the government, and the community (Bowles and Gintis 2002). With respect to government intervention the policy question is usually what should be left to the market and regarded people’s own responsibility and what should be organized through public arrangements of the welfare state funded with tax money (Swank 1998). Most often, the rationale behind welfare state arrangements is that they correct
market failures (e.g. Williamson, 1975) and in certain circumstances can produce
more preferred outcomes than private arrangements do for a number of reasons.
Public arrangements for income insurance provided by the government can be more
efficient if it offers a solution to failing markets, due to advantageous selection,
adverse selection, myopia, and free rider behavior, when it enables risk sharing across
generations, most of the time problematic in private arrangements, or when it provides
possibilities for human capital investments. Moreover, a second justification for
public arrangements is that it enables a more equal distribution of resources compared
to private arrangements (Lindbeck 2006). Besides these justification for government
intervention, the welfare state needs to be legitimized and supported by the public to
sustain in the longer run (Weatherford 1992). Whereas from a policy point of view the
welfare state can be a solution to problems associated with markets and communities,
this does not mean that every citizen favors extensive welfare state arrangements. For
instance, there is the possibility that they oppose policies directed towards certain
groups or they may find the costs associated with the welfare state too high. Even
though policymakers do not simply follow the preferences of the public, there is
extensive research material showing that public opinion does affect policies to a
certain degree (Burstein 1998; Page and Shapiro 1983).

Hence, the extensiveness of the welfare state results from at least two different
processes: the political decision regarding welfare state arrangements and the
formation of the public opinion towards these policies. Theoretically, both of these
processes can be linked to the economic openness of a country. From the policy point
of view, it is argued that it becomes more difficult to cover risks through the market
and it may be questioned whether insurances will be able to cover these risks
efficiently given the assumption that economic openness increases the uncertainty and
complexity within countries. Therefore, the expectation is that these risks will be covered through the welfare state instead. As the compensation hypothesis predicts, this kinds of government intervention will be supported – or even demanded – by the public in economically more open countries. In addition, the literature on welfare state support offers some explanations for why this is the case. Two central motives for welfare state support distilled from these studies is that people favor certain arrangements if it serves their own best interest or if they are of the opinion that the beneficiaries deserving to be helped (Appelbaum 2001; Bowles and Gintis 2000; Hasenfeld and Raferty 1989). Both reasons for welfare state support state are connected to changing societal conditions due to economic openness. If people support the welfare state because they are afraid that they lose their job in the near future, self-interest is clearly the main motive. In addition to that, support of the welfare state based on the perceived deservingness of others means that people are willing to support others because those who benefit from it are dependent upon the welfare state through bad luck instead of the unwillingness to work. Since economic globalization is a process outside the control of individual citizens, it may be expected that people who face job loss are perceived as deserving support from others and that their fellow citizens are willing to contribute to the welfare state arrangements covering these risks.

HYPOTHESES

In the preceding sections, it is argued that the compensation hypothesis combines several assumptions that have not been tested in unison, whereas this is required to evaluate the extent to which these assumptions have an empirical basis. The two main assumptions underlying the hypothesis – the ones used to explain the positive
association between economic openness and public spending – are translated into two hypotheses aimed at fully testing the predictions from the compensation hypothesis. In accordance with the discussion outlined above, this test takes place in two steps: first the step from macro level economic openness to job insecurity and secondly from the individual level back to the macro level.

The macro to micro step involves that integration into the world market alters the societal conditions that are necessary to provide citizens with a feeling of certainty about their future. This assumption leads to the following hypothesis: *Economic openness at the national level is positively related to perceived job insecurity at the individual level* (Hypothesis 1).

The second step means moving up from the individual level to the macro level and differs from the first hypothesis with respect to the empirical strategy applied. Whereas the first hypothesis can be tested straightforward with a multilevel model estimating the effect of a higher level variable on a lower level variable. To date, there are no statistical techniques available to perform a similar analysis to estimate higher-level outcomes from lower level variables. Nevertheless, there are two ways to get out of this problem. The first one is to reverse the relationship: if job insecurity leads to welfare state demand, then it follows that job insecurity should be higher in countries where public spending is higher. This can again be tested using a multilevel model with welfare state effort being the independent variable and job insecurity as the dependent variable. The second possibility – and the one applied in the empirical part of this article – extends this logic by including all variables of the compensation hypothesis by arguing that if economic openness increases job insecurity and this in turn leads to more public spending, then it is implied that the empirical relationship between economic openness and job insecurity disappears after welfare state effort is
added to the multilevel model. This argument leads to the second hypothesis. *Welfare state effort mediates the relationship between economic openness and job insecurity* (*Hypothesis 2*).

**DATA AND METHOD**

*Data*

Testing the two hypotheses requires individual and national level data. To this end, this study combined data from different sources. The information at the individual level – measuring people’s job insecurity and several personal characteristics – is taken from the *European Social Survey (ESS)* that was held in the period 2002-2003 across 30 European countries. Two national level data sources are added to these ESS data. The *KOF Index of Globalization* measures economic openness, among other dimensions of globalization (Dreher 2006). Data are available for 122 countries for each year from 1970 to 2005. Data on welfare state effort is available through the *IMF Government Finance Statistics 2001* (International Monetary Fund 2001). Combining these two datasets yielded a dataset containing information about 18,418 respondents living in 25 European countries. Table 1 provides an overview of the different variables, their level of analysis, and the corresponding data sources.

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**TABLE 1** ABOUT HERE

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Measures

**Dependent variable: job insecurity**

The ESS includes answers to questions about several aspects of the respondent’s job. The item measuring *job insecurity* is a response to the statement “My job is secure” with answering categories ranging from 1 (not at all true) to 4 (very true). The answers are reverse coded and therefore a higher score indicates a higher level of job insecurity.

**Independent variables**

The KOF Index of Globalization measures *economic openness* with data on actual flows, trade (in percent of GDP), foreign direct investment (in percent of GDP), portfolio investment (in percent of GDP), income payments to foreign nationals (in percent of GDP), hidden import barriers, mean tariff rate, taxes on international trade (in percent of current revenues), and capital account restrictions. Each variable is transformed to an index with a zero to ten scale; higher values denote more openness. The weights for the different indexes are calculated using principal components analysis. The year 2000 is used as the base year and for this year the analysis partitions the variance of the variables that are used. The weights are then determined in a way that maximizes the variation of the resulting principal component (Dreher 2006). *Welfare state effort* is measured with social spending as a share of GDP based on the data from the IMF.

**Control variables**

Several variables influence the level of job insecurity that a person experiences. These factors may be personal characteristics, the social structure of which a person is part
of, or variables related to the company where a person works. To account for these factors, a number of control variables are included in the analysis: gender (0 = male and 1 = female), age, religious denomination (0 = no; 1 = yes), domicile (1 = farm or home in countryside; 5 = a big city), educational level (1 = primary or first stage of basic education; 6 = second stage of tertiary education), working hours (contract), working hours (actual), member trade union (0 = no; 1 = yes), establishment size (1 = under 10; 5 = 500 or more), and economic sector. Economic sector is indicated with dummy variables based on the statistical classification of economic activities in the European Community (NACE Version 1.1).

**Method**

Since the dataset includes information at two different levels – the individual (level 1) and the national (level 2) – it is not possible to use Ordinary Least Square (OLS) regression analysis (e.g. DiPrete and Foristal 1994). Multilevel modeling (sometimes called hierarchical linear modeling) is suitable to investigate such nested data structures and the study reported here analyzes the data with this method. The basic multilevel model consists of a fixed part – the linear function of the independent variables – and a random part (Snijders 2003). In the analysis applied in this article, the random part consists of the unexplained variation at the individual level and the unexplained variation between the countries. The literature on multilevel modeling distinguishes random intercept and random slope models. Besides that, a combination of these two models is possible and in this study, a full random intercept and slopes model is estimated, allowing for complex variation at the highest level (Rasbash, Steele, Browne, and Prosser 2005).

The effects of economic openness on job insecurity and the mediating effect of
welfare state effort are examined with a multilevel model that consists of one
dependent variable (job insecurity), two independent variables at level 2 (economic
openness and welfare state effort), and ten control variables at level 1 (gender, age,
religious denomination, domicile, educational level, working hours according to the
contract, actual working hours, trade union membership, establishment size, and
economic sector). The variables are standardized and therefore effects sizes can be
compared. The multilevel analysis is performed in four steps. First, an empty model is
computed (Model 0). The empty model is an unconditional model without
independent variables and serves as a baseline to evaluate the other models. The
individual level control variables are added in Model 1. Economic openness is added
in Model 2 (testing Hypothesis 1) and Model 3 includes welfare state effort (to test
Hypothesis 2). The parameters in these models are estimated by the maximum
likelihood method (Goldstein 2003), the regression coefficients are tested by Wald
tests (Snijders 2003). The deviance between the models is computed to investigate
whether the fit of the different models improves in comparison to the other models
using full information maximum likelihood (Snijders and Bosker 1999). Each of the
models is compared to the previous model.

RESULTS
The number of respondents, the mean level of job insecurity, economic openness, and
welfare state effort are shown for each country in Table 2. For each variable, the
countries are presented in descending order.

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TABLE 2 ABOUT HERE
The mean level of job insecurity is high in Slovakia and Czech Republic and the experience of insecurity is low in Luxembourg and Switzerland. Luxembourg and Ireland are the economically most open countries in the sample and the economically least open countries are Turkey and Ukraine. Welfare state effort is high in the Netherlands and France and Estonia and Greece have the lowest level of spending.

With a correlation analysis a first indication of the relation between these country level variables is provided. Only one of these correlation coefficients is significant, most likely because of the low number of cases (n = 25), nevertheless examining these coefficients provides insight into the direction of the relations. According to this analysis, there is a positive association among economic openness and welfare state effort (b = 0.246; p = 0.202), confirming the expectation that follows from the compensation hypothesis. The relation between economic openness and the mean level of job insecurity is significant and negative, in contrast to what is predicted by the hypothesis (b = -0.519; p = 0.009); in economically more open countries, the average level of job insecurity is lower. Also contrary to what may be expected, welfare state effort and job insecurity are positive related (b = 0.097; p = 0.646).

Finally, the data are analyzed with a multilevel analysis combining data at the national level and the individual level. The results from the analysis are presented in Table 3.
First, a baseline model is estimated (Model 0) and secondly the control variables are added in Model 1. The model improves significantly after these variables are included (Deviance = 11,698.590; p < 0.01). As Model 1 shows, some of the individual level variables are associated with job insecurity. The level of job insecurity turns out to be lower among women and negatively related to the variables age, education, and company size. Furthermore, job insecurity varies across economic sectors and is particularly lower among people employed in the public sector. The background variables religious denomination and domicile as well as the work related factors working hours and union membership do not influence the level of job insecurity. The effects of the control variables remain the same for the other two models including the national level variables. In Model 2 the economic openness of the country is added to the model. Including this variable significantly improves the fit of the model (Deviance = 5.241; p < 0.01). Contrary to what is predicted, job insecurity is negatively related to national level economic openness (b = -0.127; p < 0.05). Therefore, Hypothesis 1 is rejected. The final model, Model 3, investigates the effect of welfare state effort on job insecurity and whether or not it mediates the relationship between economic openness and job insecurity. Adding this variable slightly increased the fit of the model (Deviance = 1.322; p < 0.100), but the variable itself is not significantly related to job insecurity. Besides that, it is worth noting that this relationship is positive and therefore in the opposite direction of the effect as stated in Hypothesis 2. Therefore, Hypothesis 2 is also rejected.

**DISCUSSION AND CONCLUSION**

This article started out with the observation that although the compensation hypothesis offers an important explanation of the positive relation between economic
openness and public spending, its basis consists of a number of assumptions that are not sufficiently tested. By building on earlier research combining national and individual level data and performing additional analyses the study does not confirm the expectations derived from the hypothesis. This raises a number of questions and offers suggestions for future research.

First, what do the findings presented in this article mean for the status of the compensation hypothesis, more specially does it mean that the race to the bottom hypothesis is supported in contrast? The answer to this question is that this is not the case. The findings do not change anything about the earlier finding that economic openness is associated with a more extensive welfare state. What the analysis does challenge is the standard explanation of the compensation hypothesis arguing that this relationship is the result of increased insecurity due to economic openness. This means that the basic assumptions of the compensation hypothesis need to be reconsidered and alternative explanations should be advanced. Such explanations can be developed in future studies that may move into different directions. One possibility is to examine the role of welfare state support and public demand for welfare state arrangements more closely to see if other factors related to economic openness influence the welfare state through individual level opinions. A different route worth exploring is to examine the organizational level more closely. Such studies should reveal to what extent organizations are relevant actors for feelings of job security and investigate whether they buffer some of the effects found in this study.

Secondly, one can ask if the research findings of this study contrast with those reported in Scheve and Slaughter (2004) since in the first case economic openness is associated with less job insecurity and in the latter with more. If one considers the outcomes, they do seem to be at odds with each other. However, it should be noted
that the two studies differ with respect to their empirical substance. The study by Scheve and Slaughter (2004) investigate trends within one country and the research in the present article compares a number of countries. It is very well possible that these data differences explain the differences in the findings. Using longitudinal data emphasizes the effect of a certain level of economic openness without comparing it with other countries as well as the impact of changes in economic openness on changing levels of job insecurity. Analyzing cross national data reverses this emphasis by focusing on comparing the effects across countries, without investigating the effects of changes in economic openness. Taking together, the two studies show that increasing levels of economic openness may lead to increasing levels of job insecurity, whereas at the same time, the countries with the highest levels of economic openness may have grown accustomed to it in the past and already developed institutional responses countering the negative effects of increased economic openness and thus increasing the level of job security alongside with that. This, however, is a matter of speculation and both studies show that testing this argument requires longitudinal and cross national data at the individual and the national level. In any way, if this explanation holds, the differences between the two studies are due to the dimension that is investigated and are not completely in contrast with each other as it may seem at first sight. Moreover, the combination of these two research results can sharpen the compensation hypothesis. As it is formulated now, the hypothesis basically argues that economic openness is positively related to job insecurity, implying that the higher the economic openness of a country, the higher the job insecurity; the hypothesis that was not confirmed in this study. Nevertheless, this does not exclude the alternative formulation that an increase in economic openness leads to increasing levels of job insecurity. Additional research, utilizing longitudinal data for a large number of
countries may be geared to investigate whether such a reformulation is supported by empirical evidence.

A third and final question that one may ask is whether the finding that economic openness is associated with less job insecurity is a confirmation of the compensation hypothesis. Such an argument can be defended since the hypothesis states that citizens demand security as a response to their increased job insecurity. Although this may seem compelling there are at least two reasons to not following this argument. From a theoretical point of view, this would mean a different approach to the compensation hypothesis, since the argument is that first there is job insecurity and in return the welfare state offers social arrangements. According to this argumentation, the job insecurity as such is not affected, the only thing that happens is that the government compensates people for their insecurity, implying a positive relation between economic openness and job insecurity. The other hypothesis argues that governments will actually try to decrease the job insecurity of citizens. This may be true in practice, but is not a matter of compensation but of actively increasing job security and in fact leads to an alternative argument that can be termed the “insecurity-reduction” hypothesis. Again, additional empirical research is required to investigate the status of this prediction. The second reason not to follow the argument that this study confirms the compensation hypothesis is a matter of looking at the empirical results. If the negative association between economic openness and job insecurity is caused by an increase in public spending, the empirical analysis should confirm this. Since welfare state effort and job insecurity turn out not to be related to each other the analysis do not provide evidence for that.

This study is an effort to empirically investigate the different components of the compensation hypothesis in one single study. The main conclusion is that the core
explanation of the compensation hypothesis either needs to be restated or that it is
time to search for alternative arguments for the relation between economic openness
and the welfare state. Researchers are encouraged to work in both directions to
increase our knowledge in this field. A second conclusion is that the present study
shows how welfare state research can benefit from multilevel modeling by combining
national level variables with lower level indicators that may explain differences
between countries, in addition to the research focusing on national level data alone.
Such an analysis can applied to several other questions in the field of welfare state
research.
REFERENCES


Figure 1: Research into the globalization-welfare state relation

National level
Economic openness \(\rightarrow\) Welfare state effort

Individual level
Insecurity \(\rightarrow\) Welfare state effort
<table>
<thead>
<tr>
<th>Variable</th>
<th>Level</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job insecurity</td>
<td>Individual</td>
<td>European Social Survey (ESS)</td>
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<tr>
<td><strong>Independent variables</strong></td>
<td></td>
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<tr>
<td>Economic openness</td>
<td>National</td>
<td>KOF Index of Globalization (KOF)</td>
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<tr>
<td>Welfare spending</td>
<td>National</td>
<td>International Monetary Fund (IMF)</td>
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<tr>
<td><strong>Control variables</strong></td>
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<tr>
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<td>Slovakia (541)</td>
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<td>Turkey (342)</td>
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<td>Iceland (308)</td>
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<td>Total (18,418)</td>
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Sources: ESS, KOF, IMF

April 2008
Table 3: Multilevel Analysis of Job Insecurity

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<td>Working hours (actual)</td>
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<td>Member trade union</td>
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<tr>
<td>Establishment size</td>
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<td>-0.034 **</td>
<td>0.009</td>
<td>-0.034 **</td>
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<td>Agriculture, hunting and forestry</td>
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<td>-0.093</td>
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<td>Fishing</td>
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<td>Mining and quarrying</td>
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<td>Electricity, gas and water supply</td>
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<td>-0.165 *</td>
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<tr>
<td>Construction</td>
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<td>-0.063 †</td>
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<td>Wholesale and retail trade</td>
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<td>-0.036</td>
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<td>Hotels and restaurants</td>
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<td>-0.027</td>
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<td>Transport, storage and communication</td>
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<td>Financial intermediation</td>
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<td>Real estate, renting and business activities</td>
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<td>Public administration and defence</td>
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<td>-0.463 **</td>
<td>0.034</td>
<td>-0.463 **</td>
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<td>-0.448 **</td>
<td>0.033</td>
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<tr>
<td>Health and social work</td>
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<td>-0.338 **</td>
<td>0.031</td>
<td>-0.339 **</td>
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<tr>
<td>Other community, social &amp; pers. serv. act.</td>
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<td>0.038</td>
<td>-0.137 **</td>
<td>0.038</td>
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<td>Private households employed p.</td>
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<td>Extra-territorial org. and bodies</td>
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<td>0.299</td>
<td>-0.300</td>
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<td>-0.300</td>
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<td>Manufacturing (reference)</td>
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<td>Variance level 2</td>
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<tr>
<td>Intraclass Correlation (ICC)</td>
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<td>-2 Log Likelihood</td>
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<td>5,241**</td>
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<td>1,322†</td>
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N = 18,418 respondents in 25 countries
Standardized regression coefficients are reported
Empty model: -2 Log Likelihood = 50,904.157; Variance level 2: 0.082** (0.024); Variance level 1: 0.923** (0.010); Intraclass Correlation (ICC) = 8.159
Sources: ESS, KOF, IMF
† p < 0.10; * p < 0.05; ** p < 0.01

April 2008