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This article examines the role of globalization and its interaction with domestic political institutions (veto players) in shaping welfare spending in 18 advanced industrial countries from 1960 to 2000. First, the author evaluates how integrated world markets have influenced welfare expenditures. Results suggest that globalization increased welfare spending in this sample. Second, the author studies how domestic political institutions mediate the impact of globalization on welfare spending. With a new data set on veto players for the years 1960 to 2000, the author finds that as the number of and ideological distance among veto players increases, the upward pressure of globalization on welfare spending is reduced. The results show that globalization has pressured states to expand welfare spending, but the extent to which states have responded to pressure critically depends on the number of and ideological distance among veto players, whose agreement is required to change welfare policy.

Keywords: *globalization; international market integration; trade openness; capital openness; capital mobility; domestic political institutions; veto players; welfare spending*

A central question in the international and comparative political economy literature on globalization is whether globalization has increased or reduced welfare expenditures. Many students of political economy have insisted that globalization should force states to roll back social welfare (Allan & Scruggs, 2004; Aspinwall, 1996; Burgoon, 2001; Drache, 1996; Garrett & Mitchell, 2001; Grieder, 1997; Korpi & Palme, 2003; Pfaller, Gough, & Therborn, 1991; Rodrik, 1997; Strange, 1996). To compete with

Author's Note: I would like to thank Lisa Blaydes, Randall Calvert, James DeNardo, Geoffrey Garrett, James Honaker, Andrew Martin, Ronald Den Otter, Ronald Rogowski, Jonathan Slapin, Michael Thies, Melissa Willard, and four anonymous reviewers for their helpful comments and discussions. I am highly indebted to George Tsebelis and Jeffrey Lewis for their constructive comments on the development of this article. All remaining errors are my sole responsibility.

less developed countries (LDCs) and to attract internationally fluid investments, they argue that states have to cut inefficient taxes and then reduce traditional welfare expenditures. On the other hand, several scholars maintain that globalization has pressured states to expand welfare benefits (Brady, Beckfield, & Seeleib-Kaiser, 2005; Cameron, 1978; Garrett, 1998; Katzenstein, 1985; Plumper, Troger, & Manow, 2005; Quinn, 1997; Rieger & Leibfried, 2003; Rodrik, 1998; Swank, 2002). According to these authors, greater openness poses economic risks and volatility that generates demand for more generous social insurance as compensation for those harmed by globalization.

Although debates about the impact of globalization on welfare spending have been intense, less attention has been paid to how domestic political institutions mediate the relationship between globalization and welfare spending. Globalization may pressure states to change (increase or decrease) their welfare spending. However, states' reactions to the pressures are not identical because different pivotal actors or domestic political institutions within the legislative process have to agree on legislative proposals for changing welfare expenditures. George Tsebelis (1995, 1999, 2002) emphasizes the role of "veto players" in policy changes. A veto player is an individual or collective actor whose agreement is required for a policy change (Tsebelis, 1995, 1999, 2002). A greater number of veto players makes it more difficult for states to alter their existing policies. This theory of policy change can be used to explain why we often find that the impact of globalization on welfare spending varies across countries and time.

In this article, I evaluate two different but connected debates on welfare spending in advanced industrial countries: how globalization has affected welfare expenditures and how veto players mediate the relationship between globalization and welfare spending. My analysis is distinctive in at least three ways. First, to examine the impact of globalization on welfare expenditures, I use six different globalization indicators (trade volume, tariff rates, imports from LDCs, capital mobility, foreign direct investments [FDIs], and international portfolio investments). Using time-series data for 18 industrial countries during the period from 1960 to 2000, the empirical results in this article show that globalization, measured by capital mobility, has increased welfare spending, whereas the other indicators do not have any effect.

Second, I operationalize veto players as both the number of veto players and the ideological distance among them. Compared to the number of veto players, less attention has been paid to the impact of ideological distance among veto players on policy change. However, veto player theory predicts that ideological distance is equally important for policy change (Tsebelis,

1999, 2002; Tsebelis & Chang, 2004). Even when there are only a few veto players, if their policy positions are far apart, policy change can rarely occur. I expand on Tsebelis's (1995, 1999, 2002) veto players data set and generate new veto players data—the number and ideological distance of veto players—for 18 advanced industrial countries for the years 1960 to 2000. The empirical results in this article show that not only the number of veto players but also their ideological distance significantly affect changes in welfare expenditures.

Finally, I analyze the interaction between globalization and veto players to study how veto players mediate the impact of globalization on welfare expenditures. Existing literature assumes that veto players have policy preferences and separately measures the impact of globalization and veto players on welfare spending. In this article, I argue that veto players do not have policy preferences. Instead, they can only delay changes in welfare spending caused by other forces (in my case, globalization). Accordingly, this article asks whether veto players reduce changes in welfare spending given the policy preferences of states under pressure from globalization. The empirical results in this article demonstrate that although globalization has forced states to expand welfare spending, the states' *ability* to do so has decreased as the number of and ideological distance among veto players has increased.

I have organized this article into five parts. First, I review the controversy over the relationship between globalization and welfare spending. Second, I review veto player theory and analyze how the domestic political institutions (veto players) interact with globalization to influence welfare expenditures. Third, I spell out the models and data that I use to construct my argument. Fourth, I present empirical results analyzing the impact of globalization and its interaction with domestic political institutions (veto players) on welfare expenditures. Finally, I consider the implications of the results.

Globalization and Welfare Spending

Many scholars have argued that globalization has forced states to roll back social insurance benefits and implement efficiency-oriented reforms for social services. This view is based on the neoliberal economic theory that if the government does not interfere, the market will select the most efficient institutional solutions among existing alternatives and that most types of government intervention, except for those related to the provision of public goods, law and order, and property rights, are inimical to the operation of

markets. As market integration increases and the national economy merges into the world market, government intervention produces harmful effects, and thus governments feel pressure to scale back their redistributive policies (hereafter the neoliberal argument).

In particular, expansion in trade and capital mobility in the globalized world market limits the ability of governments to maintain generous and comprehensive social protection. First, as the national market is more deeply integrated into the world market, manufacturers in advanced industrial countries have to compete with those in LDCs. If investors and producers operate under more generous welfare regimes, they cannot compete as effectively with their counterparts in LDCs because of higher tax burdens, more regulatory barriers, labor-market rigidities, and less docile labor movements, all of which are associated with more social welfare (Steinmo, 1994). As trade openness increases competitive pressures on exposed sectors, states have to pay more policy attention to the competitive needs of investors and producers in the tradable sectors. Thus, policy makers in open economies encounter pressures for reducing social security tax burdens on domestic producers to lower labor costs and facilitate price competitiveness of exports (Drache, 1996; Pfaller et al., 1991).

Moreover, as capital mobility increases, states have to compete to retain and attract internationally fluid investments. Because mobile asset holders can move their assets across national borders, pursuing the most profitable rate of return on investment, support-maximizing and revenue-seeking governments have to increase business confidence and produce investment incentives. Therefore, with international capital mobility, governments encourage international firms and financial institutions to remain in the domestic economy by alleviating the burdens of high labor costs or corporate taxes, inflationary pressures, and economic inefficiency under welfare states (Aspinwall, 1996; Grieder, 1997; Strange, 1996).

Opposing the neoliberal economic argument, several scholars argue that globalization has expanded welfare expenditures. Although greater liberalization and openness in trade and investment may promise aggregate economic benefits, these factors also make the distribution of incomes and jobs across firms and industries unstable, thereby increasing social dislocation and economic insecurity. These burdens force the government to directly or indirectly protect workers and firms from the risks of openness. Through the use of a large public sector and welfare spending, governments in open economies try to smooth business cycles, lessen insecurities and risks, and facilitate adjustments to the competitive pressures that arise from international market exposure (Garrett, 1998; hereafter the compensation argument).

In particular, increasing inequality and increasing economic insecurity in integrated world markets are expected to strengthen citizen support for the welfare state. First, according to the Hecksher–Ohlin model, trade openness will increase income inequality in industrial countries because it reduces demand for relatively scarce factors of production (labor) while increasing demand for relatively intensive factors of production (capital; Wood, 1994). Most economists agree that trade expansion has had significant adverse effects on labor and equality in the industrial countries (Freeman, 1995). Although a liberalized capital market benefits the owners of liquid assets and those in the finance sector, it is also questionable whether liberalization benefits other parts of society.

Second, integrated world markets can increase social dislocation and economic insecurity. In terms of primary labor economics, imports from LDCs increase the elasticity of demand for labor and raise the volatility of the wages and employment. For example, if jeans and shoes of comparable quality can be imported from LDCs to the United States at one tenth of the prices, workers in the United States have to accept cuts to their wages and benefits if they are to keep their jobs. These elastic labor demands in international trade can increase workers' job insecurity. In recent years, many scholars have found that labor market volatility and insecurity have risen in industrial economies, especially in the 1990s. Gottschalk and Moffitt (1994) find that year-to-year earnings volatility increased in the United States during the 1970s and 1980s. Schmidt (1999) finds that, despite the economic growth of the 1990s, U.S. workers felt more insecure about their jobs in the 1990s than they did in the 1980s. Scheve and Slaughter (2004) also show that greater FDI was positively correlated with individual perception of economic insecurity in Great Britain from 1991 to 1999.

If globalization increases inequality and insecurity in the society, citizens are likely to develop a policy attitude against economic integration. Those who lost their jobs and have lower wages because of globalization can turn against market liberalization. Even if globalization does not directly induce economic volatility, if individuals perceive that it does, they can still feel insecure and skeptical about economic integration. Rising inequality and insecurity can provoke protectionist backlashes against globalization. To mitigate the backlashes and help maintain public support for opening markets further, governments come under pressure to compensate those who have been harmed by globalization.

Indeed, governments in the global era seem to confront two significant and seemingly conflicting goals—opening markets for a prosperous economy and keeping generous welfare benefits. If welfare spending reduces growth

(Barro, 1998), and this effect is more prominent in the global era, governments have a strong incentive to cut welfare expenditures. On the other hand, if globalization increases inequality and insecurity, which can produce an adverse policy attitude toward the government and globalization, then governments have a strong incentive to expand welfare expenditures. Neoliberal arguments emphasize the economic risk of welfare states, whereas the compensation argument underscores the political risk of opening markets. Because of the conflicting interests between liberalized markets and welfare states in the global era, governments seem to confront a choice between the two risks. Which choice the government actually chooses is an empirical question rather than a theoretical one.

However, existing empirical work is still mixed regarding the relationship between globalization and welfare spending. Some scholars demonstrate that globalization is systematically associated with the expansion of welfare expenditures (Brady et al., 2005; Garrett, 1998; Plumper et al., 2005; Quinn, 1997; Rodrik, 1998; Swank, 2002), whereas others find that the integrated world market is negatively associated with welfare effort (Allan & Scruggs, 2004; Burgoon, 2001; Garrett & Mitchell, 2001; Korpi & Palme, 2003; Rodrik, 1997). Some even find mixed (e.g., Hicks & Zorn, 2005) or insignificant results (e.g., Iversen & Cusack, 2000; Kittel & Winner, 2005).

Problems in the existing literature can be summarized into four categories. First, measurements of the welfare state create empirical issues. Although social security transfers (or total welfare expenditures) as a share of GDP have been popularly used in the literature, this measure is criticized as overly sensitive to fluctuations in the business cycle (e.g., GDP). For this reason, Allan and Scruggs (2004) and Korpi and Palme (2003) insist that welfare entitlements data (replacement rates) are a better measure for changes in welfare policy. However, welfare states are not only about cash benefits but also about the "actual delivery" of social services (Bambra, 2005; Kautto, 2002). Some countries put more emphasis on social services than social expenditures, whereas others do just the opposite. Because the actual delivery of social services is as important as the entitlement, actual expenditures on social services are still important to measure welfare state efforts. In fact, Pierson (1996), who recognizes a "dependent variable problem," still uses the social expenditure data.

Second, although measurements for globalization have received less attention, they also produce unstable results. Scholars have popularly used trade volume (imports and exports as a share of GDP) as a globalization indicator, but trade volume is not a direct measure of market liberalization, only an "outcome" of trade policy. Moreover, trade volume is highly correlated

with unknown international market conditions (e.g., international market volatility) and other sources of welfare spending (e.g., the size of economy). Policy-driven globalization indicators such as tariff barriers are direct measures that are less correlated with unexpected international market conditions. Rodríguez and Rodrik (1999) and Rodrik (2000) find that average tariff levels measured by import duty as a share of total imports perform better as a globalization indicator in ranking trade policy openness than total trade volumes do.

In the same way, the liberalization of restrictions on capital (capital mobility) may be a better measure for capital openness than the amount of capital flows. Increases in the amount of capital do not necessarily indicate that an international capital market has developed in a country because rising capital flows may simply result from volatile international market conditions and investment decisions. At the same time, low cross-border financial flows in a country do not necessarily indicate that a global capital market is underdeveloped in a country, whereas steady capital flows may just reflect stable investment conditions and efficiently allocated capitals in the financial market. Therefore, a policy-driven indicator that is not subject to international market conditions, such as the liberalization of capital restrictions, will provide a more accurate measure for capital openness.

Third, even if the same measurements are employed for welfare effort and globalization, empirical results may vary according to years, countries, controls, and methods used for data analysis. For example, because welfare expenditures expanded in the 1960s and 1970s but contracted in the 1990s, including the former or latter periods may influence the results. Although including all countries, years, and necessary controls is ideal for data analysis, there is a trade-off. Including more countries makes data available for fewer years, whereas including more years reduces the data on a number of countries. In the same way, data for important political institutions such as labor union membership are available for only a limited number of countries. Therefore, scholars have to choose between analyzing more countries and years without the institutional variables and studying a limited number of countries and years with the institutional variables. In fact, many studies exclude labor union membership in their data analyses for welfare spending (e.g., Garrett & Mitchell, 2001; Kittel & Winner, 2005; Rodrik, 1997, 1998). Because political institutions, such as labor unions, have a significant effect on welfare spending, empirical results that do not control for these variables can have serious omitted variable bias.

Last, scholars have used different statistical methods (e.g., fixed effect, random effect, and lagged dependent variable models). For example, whether

a lagged dependent variable should be included in the model has recently become an important empirical issue in the literature (Achen, 2000; Beck & Katz, 1996; Kittel & Winner, 2005; Plumper et al., 2005). Ideally, a study should produce the same results while using different measurements, countries, years, controls, and methods. Yet in the real world, the empirical results change according to the model specification. Therefore, the researcher must make a decision about the appropriate model to use.

To resolve the problems discussed above, I use four approaches in this article. First, I use the most popular measure for welfare effort: social security transfers as a share of GDP. Then I will check the robustness of the results with total welfare spending and replacement rate data. The main budget for total public expenditures consists of two large components: social security transfers and civilian government consumption. Social security transfers are mostly composed of public pensions and unemployment benefits, whereas civilian government consumption includes in-kind benefits, such as public provision for education and health. Although reluctant to increase social security transfers, even neoliberal economists believe that civilian government consumption for education and social economic infrastructure is beneficial to the economy. My main concern in this article is to study whether governments cut welfare expenditures to promote market efficiency (the neoliberal argument) or whether governments expand to compensate those harmed by globalization (the compensation argument). Thus, I use social security transfers as a share of GDP to measure globalization's influence on welfare spending.

Second, I use six globalization indicators. As my two policy-driven measures, I use tariff rates (import duties as a share of total imports) and capital mobility (removal of restrictions on capital). Although the policy-driven measures better reflect openness policies, trade and capital flows may still reflect the real and perceived economic risks that produce compensatory demands in the global era. Therefore, I also use total trade volume, imports from LDCs, FDIs, and international portfolio investments.

Third, I include important institutional variables for 18 industrial countries between 1960 and 2000. Most studies for welfare spending end in the mid-1990s. Yet globalization has rapidly increased, whereas welfare spending has decreased in recent years. For example, FDIs and portfolio investments in the second half of the 1990s increased 143% and 316%, respectively, from the first half of the 1990s. On the other hand, average social security transfers that kept increasing until the first half of the 1990s declined 0.82% of GDP in the second half of the 1990s for the first time in the four decades. By covering the second half of the 1990s, the empirical

analysis in this article can better reflect the effect of the dramatic increases in globalization on welfare spending in recent years.

Last, I use pooled time-series regression analysis with Beck and Katz's (1995, 1996) correction for panel heteroscedasticity and spatial contemporaneous autocorrelation. Following the recommendation against using a lagged dependent variable (Achen, 2000; Kittel & Winner, 2005; Plumper et al., 2005), I use an AR(1) correction to adjust for serial correlation. The empirical results in this article show that none of the globalization indicators except capital mobility have a significant effect on welfare spending. Capital mobility has a strong, statistically significant, and positive effect with any combination of these measures.

Globalization, Veto Players, and Welfare Spending

Although current literature focuses on whether states increase or decrease welfare expenditures in the global era, less attention has been paid to how states change their expenditures. A state is essentially a set of institutions that process pressures from economic interests and organized groups and produce binding decisions or policies. Even if globalization pressures states to change their welfare spending, globalization cannot be a sufficient condition for changing welfare spending. Pivotal actors or domestic political institutions within the legislative process have to agree on legislative proposals to change welfare expenditures.

Veto players theory explains how domestic political institutions affect policy change (Tsebelis, 1995, 1999, 2002; Tsebelis & Chang, 2004). Because veto players can block or water down policy proposals, increasing the number of veto players disperses decision-making authority in a state and limits the extent to which demands for altering the status quo will actually influence policy decisions. Moreover, the ideological distance among veto players is equally important for policy change. Even if there are many veto players, it is easy for them to change the status quo if they all want the same thing. On the other hand, if there are only two veto players, changing the status quo becomes more difficult if they oppose each other.

As trade becomes more open and capital becomes more mobile, states may feel pressure to change their welfare spending. Yet the degree to which states can respond to the pressure should vary according to the number of and ideological distance among veto players. States with one veto player will be able to quickly react to the pressure, whereas states with many veto players

and a large ideological gap will incrementally respond, if at all. Therefore, even when globalization pressures states to change welfare in the same ways, holding other determinants equal, the extent of the change is most significant in states with the fewest veto players and least ideological difference among veto players. To understand the real effect of globalization on welfare spending, we therefore have to consider the role of domestic political institutions or veto players in limiting globalization's effects.

This article differentiates veto players theory from other veto players approaches (often using the term *veto points*) in the study of globalization and welfare spending (e.g., Crepaz & Moser, 2004; Swank, 2002). These approaches assume that veto points generate policy preferences for welfare spending and different veto points can "enable" or "disable" welfare expenditures. However, veto players theory argues that veto players do not enable or disable political phenomena. Instead, they may delay the adaptation process by blocking change. This is because veto players are institutions and, as such, do not have policy preferences; they are only shells through which different actors exercise their programs. The direction of change in welfare policy is generated either by the preferences of political actors (left or right) or by other forces ("globalization" in this article). So below I will test for theoretically informed expectations, but I will also test expectations generated by veto points approaches. Given that they produce no significant findings, I will confine these reports to the notes.

Data and Models for Analysis

Data

Welfare spending. The dependent variable is welfare expenditures measured by social security transfers as a share of GDP. Social security transfers include social assistance grants, welfare benefits paid by the government, and benefits for sickness, old age, family allowances, and so on.

Globalization. To measure the degree of international market integration, I use two key components of contemporary globalization: trade and capital openness. Although both trade and capital openness represent globalization, they do not necessarily affect welfare expenditures in the same way. Thus, I disaggregate globalization into these two parts. For the measure of trade openness, I use total trade volume (imports and exports) as a share of GDP, average tariff rates measured by import duties as a share of total imports, and imports from LDCs as a share of GDP, excluding imports

from the Organization of the Petroleum Exporting Countries. For the measure of capital openness, I use capital mobility (capital = 0% to 100%), FDIs as a share of GDP, and international portfolio (assets and liabilities) investments as a share of GDP. For capital mobility, I use Quinn's (1997) index of the liberalization of capital markets (capital). The index captures the formal legal environment and the potential for international flows: "financial restrictions" and "international legal agreement." For interpretative convenience, I changed the index (0 to 14 points) to percentage terms (0% to 100%).

Veto players. I measure two aspects of veto players that prevent welfare policy change: the number of veto players and the ideological distance of veto players. To measure the number and ideological distance of veto players, I use Tsebelis's (1995, 1999, 2002) veto players data set. However, the data set ends in 1994 and excludes the United States. I extend the data set to the year 2000 and include the United States. On publication, this data set will be made available on my homepage for other researchers to use. For the extension, I follow the measures that Tsebelis (1995, 1999, 2002) and Tsebelis and Chang (2004) use.

First, the number of veto players is the effective number of veto players, which Tsebelis (1995, 1999, 2002) operationalizes in terms of both institutional and partisan divisions. Partisan veto players are parties in a coalition government, and institutional veto players are presidents and chambers of legislatures that are required to consent to pass a law. The number of veto players is first measured by counting the number of partisan and institutional veto players. For example, in a unicameral legislature with three partisan veto players, the number of veto players is three. In states that have bicameral legislatures with three partisan veto players, the number of veto players is four. Yet according to the "absorption rule," although the higher number of institutional veto players in a political system hinders policy change, if the same party or coalition of parties controls all of the decision-making organizations, the number of institutional veto players reduces to one, and significant policy change can occur in the system (Tsebelis, 1995, 1999, 2002). Therefore, if the coalition parties control both of the legislatures, the effective number of veto players is reduced from four to three. In the United States, the number of veto players is potentially three because the House of Representatives, the Senate, and the president are required to consent on a bill in most cases.[1] Yet because of the absorption rule, it has only two veto players at most.

Second, the ideological distance of veto players is the ideological distance of "partisan veto players" (Tsebelis, 1999, 2002; Tsebelis & Chang, 2004).

The ideological distance of veto players is measured by standardized scores of three indices of the ideological position of parties in the government: Castles and Mair (1984), Laver and Hunt (1992), and J. Huber and Inglehart (1995). The first index was provided by Castles and Mair in "Left–Right Political Scales: Some 'Expert' Judgements." The second index was drawn from Laver and Hunt's first dimension variable, "increase services vs. cut taxes." The third index was from Huber and Inglehart's "Expert Judgements of Party Space and Party Locations in 42 Societies." With these three measures of ideology, I construct three new variables representing the ideological distance of each government. I first take the absolute value of the ideological distance among the most extreme parties of a coalition in a government in each index. Then I standardize each index and take the average of the three standardized scores.

As a result, I successfully create a new veto players data set that covers the period from 1960 to 2000. The data for the number of veto players include all 18 countries and years, except for Italy in 1995 and New Zealand in 1960 to 1969. Italy in 1995 is treated as missing because the Dini government in 1995 was a transition government with no direct party links (caretaker government). The data on the ideological distance of veto players do not cover New Zealand for 1960 to 1969 and for 1996 to 2000, Italy for 1995 to 2000, Japan for 1996 to 2000, and Finland for 1970. Italy and Japan experienced drastic changes in the party systems in the first half of the 1990s. Because the indices cover ideological position of parties only until the mid-1990s, the data for the ideological distance of veto players are unavailable for Italy and Japan in the second half of the 1990s.

Controls. To isolate the effects of globalization and domestic political institutions on welfare spending, I also include control variables that are commonly used in investigations of the welfare–globalization nexus. First, leftist party power, measured by the share of leftist seats in Parliaments, is expected to increase welfare spending. Second, the organized strength of labor, measured by the number of union members relative to the size of the labor force, is expected to increase welfare spending. Third, the number of elderly in a population, measured by members of the population 65 years and older as a share of the total population, is expected to increase social welfare spending. Fourth, the unemployment rate is expected to increase welfare spending because high unemployment leads to increased spending on the unemployed. Nevertheless, because a higher unemployment rate means poor economic performance, it can also lead to a decrease in welfare spending.

Fifth, the inflation rate can also either reduce or increase welfare spending. The inflation rate can automatically reduce welfare spending because

inflation reduces real monetary value, and welfare spending as a share of GDP can reflect a real measure of payments. Yet under social or political pressure, policy makers can overzealously respond to inflation and overcompensate for inflation. Sixth, GDP per capita and economic growth can also increase or decrease welfare spending. Increases in the level of economic development and economic activity may expand welfare expenditures by raising the revenue base of the welfare state. On the other hand, increased welfare in a society and recovery in economic activity can invoke automatic and discretionary decreases in social welfare spending by reducing the number who need social security benefits.

Seventh, recent studies show that incumbents increase transfer payments before elections to win votes. As such, I control for the effects of election years by an election dummy, where election year is coded as 1 and 0 otherwise. Last, the European Economic and Monetary Union (EMU) is expected to be negatively associated with welfare expenditures. To get into the EMU, countries in the European Union (EU) had to stabilize their public finances. The EU Commission reviews and restricts the public finances of EMU member countries by the Stability and Growth Pact. To inspect the effects of the EMU, I include a dummy variable for the EMU, in which countries willing to enter the EMU are coded as 1 and 0 otherwise. Belgium, France, Germany, Ireland, Italy, and Netherlands are coded 1 from 1992, and Austria and Finland are coded 1 from 1995. The United Kingdom, Denmark, and Sweden are coded as 0 because they did not commit to the EMU, although they are members of the EU.

Models

In time-series data analysis for welfare spending, it has become a standard practice to use a lagged dependent variable with country dummies and panel-corrected standard errors in line with Beck and Katz's (1995, 1996) recommendation. According to Beck and Katz (1995), when data have panel-level heteroscedasticity and contemporaneous spatial correlation but no temporal autocorrelation, panel-corrected standard errors perform more efficiently than a standard robust sandwich estimator. To eliminate serial autocorrelation, Beck and Katz (1996) recommend using a lagged dependent variable. Following their recommendation of using a lagged dependent variable, many scholars have produced mixed empirical results for the impact of globalization on welfare spending (e.g., Garrett & Mitchell, 2001; Swank, 2002).

However, several methodologists find that regression analyses with the lagged dependent variables have produced biased empirical results (Achen, 2000; Kittel & Winner, 2005; Plumper et al., 2005). Achen (2000) and

Plumper et al. (2005) show that the coefficients (and the standard errors) of the lagged dependent variables are biased upward (and downward), whereas those for significant independent variables such as old-age population and unemployment are biased downward (and upward). They argue that the biases are caused by the lagged dependent variable that wrongly presupposes an identical persistent effect of all independent variables. Moreover, Kittel and Winner (2005) argue that a lagged dependent variable combined with country fixed effects can increase bias because the lagged dependent variable is correlated with country dummies. For these reasons, Achen argues that in the time-series application of government budget studies, plausible functional forms with no autoregressive terms produce theoretically meaningful coefficients with a modestly successful fit. Plumper et al. suggest that ordinary least squares with panel-corrected standard errors and a first order autocorrelation correction [AR(1)] are the most defensible for the study of welfare spending.

In this article, I build a series of regression estimates of welfare spending between 1960 and 2000 for 18 industrial countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. The observations in the analysis are country–years, and I seek to explain cross-national and longitudinal variation in welfare expenditures. Following Achen's (2000) and Plumper et al.'s (2005) suggestions, I use Beck and Katz's (1995, 1996) correction for panel heteroscedasticity and spatial contemporaneous autocorrelation but use AR(1) correction to adjust for serial correlation. The AR(1) process assumes that only unmeasured variables are correlated.[2] The results provide Prais-Winsten coefficients with panel-corrected standard errors. To account for a variety of potential (unmodeled) country-specific effects, I also include country dummies.[3]

$$\text{Model 1. } WelfareSpending_{it} = b_1\, Globalization_{it} + \sum (b_j\, Controls_{it}) + \sum (b_k\, Country_{ki}) + \mu_{it}$$

$$\text{Model 2. } WelfareSpending_{it} = b_1\, Globalization_{it} + b_2\, VetoPlayer_{it} + b_3\, Globalization * VetoPlayer_{it} + \sum (b_j\, Controls_{it}) + \sum (b_k\, Country_{ki}) + \mu_{it}$$

$$\text{Model 3. } \frac{\partial WelfareSpending_{it}}{\partial Globalization_{it}} = b_1 + b_3\, VetoPlayer_{it}$$

Model 1 is a general form I use to analyze the effects of globalization on welfare spending between 1960 and 2000. In the equation, the *b*s are parameter estimates, and Welfare denotes welfare spending. The subscripts *i* and *t* denote, respectively, the country and year of the observations. The *j* and *k* (18) indicate, respectively, control variables and country dummies. To identify the equations, the intercept is suppressed. In the model, globalization is represented by six indicators of integration into international markets: trade volumes, tariff rates, imports from LDCs, capital mobility, FDI, and international portfolio investments.

Model 2 includes the effects of the veto players variable and its interaction with globalization on welfare spending. VetoPlayer represents the number of veto players and their ideological distance. The number and ideological distance of veto players are highly correlated (.77). It seems reasonable that ideological distance among veto players becomes larger when more veto players exist in the government. I separately regress them on welfare spending to avoid a collinearity problem. Globalization*VetoPlayer represents the interaction between globalization and veto players. The interactive (multiplicative) terms can capture the mediating effects of veto players on the relationship between globalization and welfare spending. The six globalization variables are expected to have negative (neoliberal argument) or positive (compensation argument) parameters, and their interactions with the number and distance of veto players should have opposite signs to the parameters of the globalization variables. Model 3 represents the marginal effect of globalization on welfare spending produced by Model 2. According to the theory, veto players do not determine but only reduce the effect of globalization on welfare spending. Therefore, the marginal effect of globalization on welfare spending is expected to be negative according to the neoliberal argument but positive according to the compensation argument.

Results of Pooled Time-Series Regression Analysis

The results of my empirical analysis are summarized in Tables 1 and 2. Table 1 first reports the impact of globalization on welfare spending without the veto player variables. In the regressions, capital mobility consistently has a positive and significant relationship with welfare expenditures, but the other measures of globalization do not have any statistical significance. Statistical results for capital mobility do not change with any combination of the globalization indicators. This finding strongly supports the compensation argument that globalization has expanded welfare expenditures.

Table 1
The Effects of Globalization on Welfare Spending, 1960 to 2000

	Trade + Capital 1	Trade + FDI 2	Trade + Portfolio 3	Tariff + Capital 4	Tariff + FDI 5	Tariff + Portfolio 6	LDC Import + Capital 7	LDC Import + FDI 8	LDC Import + Portfolio 9	All 10
Globalization										
Trade volume	0.003	0.004	–0.005							–0.015
	(0.010)	(–0.009)	(0.010)							(0.014)
Tariff rate				–0.081	–0.098	–0.084				–0.083
				(0.080)	(0.079)	(0.101)				(0.105)
Imports from LDCs							–0.011	0.002	–0.129	0.059
							(0.128)	(0.118)	(0.168)	(0.185)
Capital mobility	0.023***			0.016**			0.025***			0.023**
	(0.007)			(0.008)			(0.008)			(0.014)
FDI		–0.007			–0.011			0.000		–0.004
		(–0.014)			(0.009)			(0.014)		(0.014)
Portfolio investment			0.003			–0.014			0.003	–0.011
			(0.005)			(0.017)			(0.005)	(0.018)
Control variables										
Leftist power	–0.005	–0.004	0.001	–0.002	–0.002	–0.002	–0.003	–0.002	0.001	0.002
	(0.006)	(–0.006)	(0.011)	(0.007)	(0.007)	(0.012)	(0.006)	(0.006)	(0.011)	(0.013)
Labor power	0.062***	0.060***	0.091***	0.113***	0.111***	0.102***	0.063***	0.060***	0.094***	0.116***
	(0.016)	(–0.017)	(0.017)	(0.016)	(0.016)	(0.018)	(0.017)	(0.018)	(0.019)	(0.019)
Old-age population	0.538***	0.647***	0.319***	0.360***	0.448***	0.419***	0.581***	0.672***	0.386***	0.386***
	(0.097)	(–0.09)	(0.082)	(0.114)	(0.106)	(0.107)	(0.105)	(0.096)	(0.097)	(0.137)
Unemployment rate	0.474***	0.466***	0.468***	0.430***	0.430***	0.441***	0.460***	0.455***	0.452***	0.434***
	(0.037)	(–0.035)	(0.037)	(0.034)	(0.034)	(0.041)	(0.037)	(0.037)	(0.038)	(0.042)

(continued)

Table 1 (continued)

	Trade + Capital 1	Trade + FDI 2	Trade + Portfolio 3	Tariff + Capital 4	Tariff + FDI 5	Tariff + Portfolio 6	LDC Import + Capital 7	LDC Import + FDI 8	LDC Import + Portfolio 9	All 10
Inflation rate	–0.006	–0.011	–0.027	–0.043***	–0.042***	–0.035*	–0.010	–0.014	–0.029*	–0.034*
	(0.016)	(–0.014)	(0.022)	(0.015)	(0.014)	(0.022)	(0.015)	(0.014)	(0.022)	(0.025)
GDP per capita (United States = 100)	–0.029***	–0.028***	–0.044**	–0.049***	–0.048***	–0.058***	–0.029***	–0.029***	–0.046***	–0.067***
	(0.011)	(–0.011)	(0.019)	(0.012)	(0.012)	(0.021)	(0.011)	(0.011)	(0.020)	(0.021)
Economic growth	–0.063***	–0.064***	–0.070***	–0.081***	–0.079***	–0.082***	–0.059***	–0.060***	–0.070***	–0.077***
	(0.016)	(–0.015)	(0.018)	(0.017)	(0.017)	(0.018)	(0.016)	(0.015)	(0.019)	(0.021)
Election year dummy	0.055*	0.05	0.082	0.052	0.048	0.060	0.063*	0.053*	0.092*	0.076
	(0.042)	(–0.04)	(0.066)	(0.046)	(0.045)	(0.073)	(0.044)	(0.041)	(0.070)	(0.080)
EMU dummy	–0.359	–0.139	–0.240	–0.480*	–0.347	–0.469***	–0.169	0.067	–0.107	–0.498***
	(0.287)	(–0.254)	(0.208)	(0.302)	(0.283)	(0.200)	(0.272)	(0.240)	(0.206)	(0.197)
Number of cases	615	617	446	452	454	387	570	577	420	361
R^2	.938	.921	.956	.961	.956	.965	.926	.897	.950	.968
Wald χ^2	118821	476253	180583	897078	1100000	388411	292319	195246	308290	437023
Prob. > χ^2	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000
ρ	.784	.82	.760	.755	.774	.744	.805	.847	.773	.716

Note: FDI = foreign direct investment; LDC = less developed country; EMU = European Economic and Monetary Union. The dependent variable is welfare spending, social security transfers as a share of GDP. Welfare spending ranges from 3.50 to 28.91 with mean of 12.89 and a standard deviation of 4.76. See the appendix for detailed variable descriptions. Estimation is by least squares with standard errors corrected for panel heteroscedasticity. Each regression also includes dummies for countries (not shown for space), and the constant variable is suppressed. Panel-corrected standard errors (adjusted for heteroscedasticity and contemporaneous correlation) are in parentheses. The number of cases varies according to data availability. Tariff data are missing for the 1960s. LDC import data are missing for Belgium. Switzerland is dropped in regressions for portfolio investments.
*$p < .10$, one-tailed. **$p < .05$, one-tailed. ***$p < .01$, one-tailed.

Table 2
The Effects of Globalization and Veto Players on Welfare Spending, 1960 to 2000

	Number of Veto players		Ideological distance of Veto players	
	Trade + Capital 11	Tariff + Capital 12	Trade + Capital 13	Tariff + Capital 14
Globalization				
Trade volume	0.004		0.001	
	(0.010)		(0.010)	
Tariff rate		–0.072		–0.071
		(0.078)		(0.078)
Capital mobility	0.034***	0.028***	0.018***	0.015**
	(0.009)	(0.012)	(0.007)	(0.008)
Veto players				
Number of veto players	0.293*	0.388		
	(0.227)	(0.316)		
Ideological distance			0.434*	0.557*
			(0.299)	(0.389)
Capital × *n* of veto players	–0.006**	–0.006*		
	(0.003)	(0.004)		
Capital × ideological distance			–0.007**	–0.009**
			(0.004)	(0.005)
Control variables				
Leftist power	–0.005	–0.003	–0.009	–0.003
	(0.007)	(0.008)	(0.007)	(0.008)
Labor power	0.066***	0.116***	0.057***	0.114***
	(0.016)	(0.016)	(0.016)	(0.016)
Old-age population	0.572***	0.398***	0.700***	0.425***
	(0.098)	(0.116)	(0.107)	(0.113)
Unemployment rate	0.469***	0.429***	0.464***	0.425***
	(0.036)	(0.034)	(0.037)	(0.033)
Inflation rate	–0.007	–0.043***	–0.006	–0.042***
	(0.015)	(0.015)	(0.016)	(0.015)
GDP per capita (United States = 100)	–0.029***	–0.048***	–0.027***	–0.045***
	(0.011)	(0.011)	(0.011)	(0.011)
Economic growth	–0.063***	–0.080***	–0.062***	–0.081***
	(0.016)	(0.018)	(0.016)	(0.018)
Election year dummy	0.048	0.049	0.055*	0.055
	(0.042)	(0.046)	(0.042)	(0.045)
EMU dummy	–0.296	–0.437*	–0.285	–0.421*
	(0.287)	(0.303)	(0.286)	(0.314)
Number of cases	614	451	603	447

(continued)

Table 2 (continued)

R^2	.939	.961	.937	.963
Wald χ^2	2030000	771712	419493	705596
Prob. > χ^2	.000	.000	.000	.000
ρ	.787	.757	.788	.745

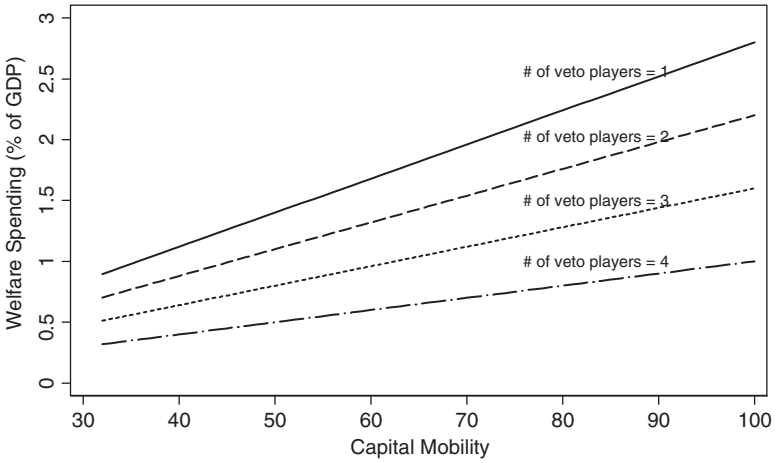
Note: The dependent variable is welfare spending, social security transfers as a share of GDP. Welfare spending ranges from 3.50 to 28.91 with a mean of 12.89 and a standard deviation of 4.76. See the appendix for detailed variable descriptions. Estimation is by least squares with standard errors corrected for panel heteroscedasticity. Each regression also includes dummies for countries (not shown for space), and the constant variable is suppressed. Panel-corrected standard errors (adjusted for heteroscedasticity and contemporaneous correlation) are in parentheses. The number of cases varies according to data availability. Tariff data are missing for the 1960s. *p < .10, one-tailed. **p < .05, one-tailed. ***p < .01, one-tailed.

Table 2 shows the impact of globalization and its interaction with veto players on welfare spending. As I expected, capital mobility is positively related with welfare spending, but its interaction terms with the number and ideological distance of veto players are strongly and negatively associated with welfare spending. The coefficients are also substantively meaningful. According to the regression (11) for the number of veto players, when a country with one veto player completely opens its capital market (100%), welfare spending increases by 2.8% of GDP, $(0.034 \times 100) - (0.006 \times 100 \times 1)$, holding the other effects constant. Yet if the number of veto players in the country increases from one to two, the increase in welfare expenditures declines from 2.8% to 2.2% of GDP (3.4% – 1.2%). Similarly, in the regression (13) with the ideological distance among veto players, when a country with average ideological distance (standardized value = 0) completely opens its capital market (100%), welfare spending increases by 1.8% of GDP, $(0.018 \times 100) - (0.007 \times 100 \times 0)$. Yet if the ideological distance of veto players in the country increases by one standard deviation (e.g., a different coalition government), increases in welfare expenditure decline from 1.8% to 1.1% of GDP (1.8% – 0.7%).

Figures 1 and 2 graphically show how veto players mediate the impact of capital mobility on welfare spending. In both figures, welfare spending increases as capital mobility increases. Yet the degree of the increases (i.e., the slope) reduces as the number of veto players and the ideological distance among veto players increase. In other words, the marginal upward impact of capital mobility on welfare spending is moderated by a higher number of veto players and a larger ideological distance among them.[4]

The control variables show that the level of welfare spending is driven not only by deliberate change in welfare policy but also by automatic adjustment,

Figure 1
The Impact of the Number of Veto Players on the Relationship Between Capital Mobility and Welfare Spending

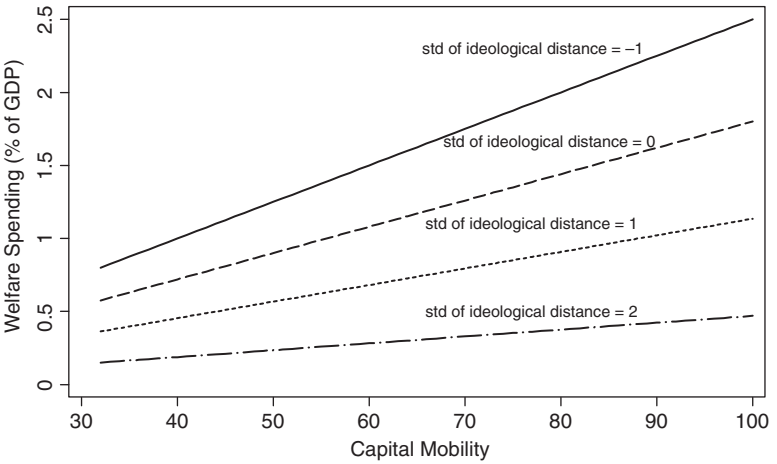


Note: #1. Data are calculated with coefficients. #2.Welfare spending: Social security transfers as a share of GDP.
#3. Capital mobility (0% to100%): 100% means perfect capital mobility.
#4. # of veto players means the number of veto players.

resulting from changes in demographic and economic conditions. First, labor power, old-age population, and the unemployment rate are positively associated with welfare spending. It is straightforward to understand that the increased number of the aged and unemployed increases welfare expenditures for their benefit. The strength of labor unions also seems to be influential on welfare spending. Second, GDP per capita and economic growth are negatively related with welfare spending. Increased welfare in a society and recovery in economic activity seem to reduce welfare expenditures, whereas economic downturns seem to promote welfare expansion.[5] Last, leftist power, the inflation rate, the election dummy, and the EMU dummy have little impact on social welfare provision.[6]

I test the robustness of the empirical results in three different ways. First, I test the empirical results with different statistical models (fixed effect, random effect, and lagged dependent variable models). Although the number of veto players loses its statistical significance in the lagged dependent variable model, capital mobility and its interaction with veto players hold their statistical significance in all three models. The results for the ideological distance of veto players are much stronger ($p < .01$) in all three of the models.

Figure 2
The Impact of the Ideological Distance of Veto Players on the Relationship Between Capital Mobility and Welfare Spending



Note: #1. Data are calculated with coefficients. #2. Welfare spending: Social security transfers as a share of GDP.
#3. Capital mobility (0% to 100%): 100 % means perfect capital mobility.
#4. std of ideological distance means the standard deviation of ideological distance.

Second, I also use total public expenditures and Allan and Scruggs's (2004) welfare entitlement data ("benefit generosity") as a dependent variable instead of social security transfers. Benefit generosity is a composite measure that Allan and Scruggs create with unemployment, pension, and sickness replacement rates in their Comparative Welfare Entitlements Dataset. Capital mobility and its interaction with the veto player variables produce the same significant results in the regressions for total welfare spending, whereas only the number of veto players keeps the same results in the benefit generosity data. Finally, I test if globalization has a curvilinear relationship with the welfare state. Some scholars argue that globalization causes welfare expansion in its early stages but produces welfare retrenchment in later stages (Hicks, 1999; Rodrik, 1997). To test the argument, I include globalization indicators and their squared terms in the regressions. According to the argument, globalization variables should have positive coefficients, whereas their squared terms should have negative coefficients. However, the results do not follow their argument, and the squared terms do not have any statistical significance. The marginal effect of globalization on welfare

expenditures does not necessarily change according to the welfare expansion and retrenchment.[7]

Discussion and Conclusion

This article evaluates two important questions about the relationship between globalization, veto players, and welfare expenditures: how globalization has affected welfare expenditures and how veto players mediate the impact of globalization on welfare expenditures. The empirical results in this article yield the following conclusions. First, globalization, measured by capital mobility, has a direct effect on expanding welfare expenditures. I discussed how governments in the global era confront a choice of the two conflicting interests—opening markets for economic advantages and keeping generous welfare benefits for political rewards. The empirical results in this article suggest that the political incentives for governments to expand welfare compensation have overwhelmed market constraints in the global era. Yet, the results do not imply that states are retreating from globalization but rather suggest that states are willing to push globalization further. It is important to note that the policy-driven globalization indicator, capital mobility, has a significant effect on welfare expenditures. This result suggests that governments feel more pressure to enlarge social security when they remove protection for domestic markets. Thus, welfare expansion in the global era may result from the "embedded liberalism compromise": Societies are asked to embrace change and dislocation in international liberalization, but the state promises to cushion those effects through domestic economic and social policies (Ruggie, 1996).

Second, more veto players and increased ideological distance among them reduce the upward pressure of globalization on welfare spending. The results suggest that even when a government has a strong political incentive to increase welfare benefits in the global era, expansion will not be easy, and the scope of change will significantly reduce if it has to make compromises and win approval from several political institutions and/or parties. Even when states confront similar external pressures from globalization, those with more veto players and divergent ideology among them are unable to change their welfare policies as much as those with fewer veto players and comparable ideology. As a result, the empirical evidence in this article largely supports my argument that although globalization pressures states to change welfare expenditures, the states' *ability* to do so decreases as the number of and ideological distance among veto players needed to change the status quo increases.

Appendix
Variables Used to Predict Welfare Spending, 1960 to 2000

Variable	Description	*M*	*SD*	Source
I. Welfare spending (dependent variable)				
1. Welfare spending	Social security transfers as a share of GDP. The data consist of benefits for sickness, old age, family allowances, social assistance grants, welfare, and so on.	12.89	4.76	OECD Historical Statistics, various years, Table 6.3
II. Globalization				
1. Tariff	Average tariff rates measured by import duties as a share of total imports. Data are missing for the 1960s.	1.83	2.25	World Development Indicators 2005
2. Trade	Trade openness, the sum of imports and exports as a share of real GDP per capita in current prices.	58.65	28.90	World Bank and United Nations data archives
3. LDC import	Imports from LDCs as a share of GDP, excluding imports from OPEC.	2.35	1.19	UNCTAD Handbook of Statistics 2005, Table 3.1
4. Capital	Capital mobility (in percentage). Capital mobility is measured by the sum of three measures: (a) liberalization of inward and outward capital account transactions (0 to 4), (b) liberalization of inward and outward current account transactions (0 to 8), (c) accession to international legal agreements, such as OECD, IMF, EU, and so on, that constrain a nation's ability to restrict exchange	79.17	17.46	Quinn (1997) IMF Annual Report on Exchange Arrangements and Exchange Restrictions

(continued)

Appendix (continued)

Variable	Description	*M*	*SD*	Source
	and capital flows (0 to 2). For interpretation, capital mobility is converted from the 0 to 14 range to percentage openness (0% to 100%). Thus, 100% means perfect capital mobility. Following the directions in Quinn (1997), data for 2000 are generated with Annual Report on Exchange Arrangements and Exchange Restrictions, IMF.			
5. FDI	Gross FDIs as a share of GDP.	2.14	3.28	IMF International Financial Statistics, various years
6. Portfolio	International portfolio (assets and liabilities) investment as a share of GDP.	3.16	15.83	IMF International Financial Statistics, various years
III. Veto players				
1. Veto players	Number of veto players.	2.28	1.3	Data from 1960 to 1994 are from Tsebelis's Veto Players Dataset (http://www.polisci.ucla.edu/tsebelis). Data from 1995 to 2000 are measured using Political Data Yearbook in *European*

(continued)

Appendix (continued)

Variable	Description	*M*	*SD*	Source
2. Ideological distance	Ideological distance of partisan veto players in the government. Ideological distance is the range between the most extreme two parties in the government. Data are averaged standardized scores of three indices of the ideological position of parties in the government: Castles and Mair (1984), Laver and Hunt (1992), and Huber and Inglehart (1995).	0.07	0.95	*Journal of Political Research* Data from 1960 to 1994 are from Tsebelis's Veto Players Dataset http://www.polisci.ucla.edu/ Data from 1995 to 2000 are measured with Castles and Mair (1984), Laver and Hunt (1992), Huber and Inglehart (1995), and *European Journal of Political Research* Political Data Yearbook
3. Capital × veto players	Interaction between capital mobility and the number of veto players.	185.25	117.94	
4. Capital × ideological distance	Interaction between capital mobility and the ideological distance of partisan veto players in the government.	9.23	79.59	

(continued)

Appendix (continued)

Variable	Description	*M*	*SD*	Source
IV. Control variables				
1. Left power	Left seats as a share of total seats in Parliaments.	36.15	15.64	
2. Labor power	Net union members (gloss minus retired and unemployed members) as a share of total labor force.	44.16	17.63	
3. Old-age population	Population 65 years and older as a share of total population.	12.48	2.57	OECD, Labour Force Statistics, various years; OECD Health Data, ECO-SANTE, 1995, 1998, 2003
4. Unemployment rate	Standardized unemployment rate according to OECD criteria.	5.06	3.55	OECD Labor Force Statistics, Health Data, Economic Outlook and Historical Statistics, various years

(continued)

Appendix (continued)

Variable	Description	*M*	*SD*	Source
5. GDP per capita	Real GDP per capita relative to the United States (100). This is the current per capita GDP expressed relative to the United States (100) in each year.	76.51	13.60	Penn World Table Version 6.1
6. Economic growth	Growth of GDP percentage change from previous year.	3.40	2.58	OECD economic outlook, various years
7. Inflation rate	Consumer price index as percentage change from prior year.	5.38	4.12	IMF International Financial Statistics
8. Election dummy	Election year dummy (election year = 1, otherwise = 0), election of national Parliament (lower house).			
9. EMU dummy	EMU dummy. Belgium, France, Germany, Ireland, Italy, Sweden, and Netherlands are coded 1 from 1992. Austria and Finland are coded 1 from 1995.			
10. Country dummies	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.			

Note: OECD = Organisation for Economic Co-operation and Development; LDC = less developed country; OPEC = Organization of the Petroleum Exporting Countries; IMF = International Monetary Fund; EU = European Union; FDI = foreign direct investment; EMU = European Economic and Monetary Union. Whenever available, data are retrieved from Huber, Ragin, Stephens, Brady, and Beckfield's (2004) Comparative Welfare States Dataset and Armingeon, Leimgruber, Beyeler, and Menegale's (2005) Comparative Political Dataset. Original data sources are quoted for the data.

Notes

1. In theory, the president can also be discounted even if he comes from another party as long as Congress can easily override him. Because any override of a presidential veto would have required some support from his party in Congress, however, the president is still counted as a veto player (Hallerberg & Basinger, 1998).

2. The AR(1) process models the error term as $y_{it} = \alpha + \beta x_{it} + \varepsilon_{it}$, where $\varepsilon_{it} = \rho \varepsilon_{it-1} + u_{it}$, u_{it} is assumed to be white noise (Plumper, Troger, & Manow, 2005).

3. Although I carefully controlled factors that influence welfare expenditures, there may still be remaining errors for country-specific reasons. Without country dummies, veto player variables, which largely vary across countries, may produce stronger results. Yet the results still mask the effect of globalization on welfare spending because globalization and welfare spending are influenced by unmeasured country-specific effects. Overall, veto player variables have strong statistical significance even with the country dummies. Because country dummies control the unmeasured country-specific effects, statistical models with country dummies are more conservative on the globalization variables than the ones without them.

4. Although not included for graphical expression, I also calculated 95% confidence intervals for the marginal effect of capital mobility on welfare spending, as Brambor, Clark, and Golder (2006) recommend. The marginal impact of capital mobility is meaningful when the number of veto players is smaller than about 3.5 and the ideological distance of veto players is smaller than about 0.5. Data in this article satisfy these conditions roughly at 80% for the number of and 60% for the ideological distance among veto players.

5. One may suspect that the negative correlation between GDP growth and social security spending results from the changes in the denominator of the dependent variable (i.e., decreases in GDP) rather than social security transfers. Yet GDP in almost all countries has increased over time, and hence the denominator always increases across time. In fact, scholars have found the same results in other data analyses (e.g., Swank, 2002).

6. Plumper et al. (2005) and Allan and Scruggs (2004) find that partisan politics still has a strong impact on welfare spending in their data analysis with period dummies. Because my main concern in this article is veto players, I apply leftist parties only as a control.

7. Contrary to the thesis in this article, some scholars argue that veto players themselves create prowelfare and antiwelfare states (e.g., Crepaz & Moser, 2004; Swank, 2002) in the global era. Swank (2002) argues that "dispersion in authority (e.g., federalism, separation of powers, and bicameralism)" (pp. 34-37) creates weak welfare programmatic alliances and induces retrenchment and neoliberal restructuring of the welfare state in the global era. Crepaz and Moser (2004) divide veto players into collective (disproportionality of the electoral system, effective number of legislative parties, and degree of corporatism) and competitive veto players (degrees of federalism and bicameralism). They claim that collective veto players increase welfare spending, whereas competitive veto players reduce it. To test the argument, I include Crepaz and Moser's five veto players measures in my models. Crepaz and Moser take their five veto player measures from Lijphart (1999). However, the data are time invariant and only go until 1996. Instead, I retrieve data for disproportionality of the electoral system, effective number of legislative parties, degree of federalism, and degree of bicameralism from E. Huber, Ragin, Stephens, Brady, and Beckfield's (2004) Comparative Welfare States Dataset. Because data for degree of corporatism are unavailable, I use Lijphart's data for this variable only. None of the variables except federalism are statistically significant with the expected signs, nor do they change the empirical results in this article.

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