

# **Citizenship at the Millennium:**

## **Testing the Effects of Trade on Social and Civil Citizenship**

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In the wake of the debt crisis of the early 1980s, and a widespread recognition of shortcomings in the import substitution industrialization model, a notable shift toward more outward looking economic policies emerged in Latin America. A priority for trade is part of a larger, global process of economic integration.<sup>1</sup> This globalization of economic relations is facilitated by the speed of modern transportation and communication networks, which enable the spread of transnational corporations, multi-national manufacturing processes, instantaneous financial transactions, and global-level marketing and retailing. An important impetus to trade has been nearly-global agreements about the rules by which production and exchange will take place, such as the General Agreement on Tariffs and Trade (GATT), as well as inter-regional agreements such as those of Mercosur or the North American Free Trade Agreement. Market rules are the organizing principles for those agreements, and so the formation of a single global economy occurs concurrently with the spread of liberal economic principles.

The welfare benefits of free trade, from a macroeconomic perspective, are many. Economies are more productive when engaged in free trade, due to the opportunity to use imported technology and inputs, the innovations and effort brought on by competition, and economies of scale.<sup>2</sup> The impact of this shift in economic policy upon the state and the consequences for the quality of democratic citizenship are less clear.

Since welfare economics studies how to create more prosperous economies, economists typically approach political factors as independent variables that might interfere with sound economic policy. Their work urges governments to restrain their inclinations to please constituencies who may not understand the benefits of free trade, may not benefit from the economic restructuring required for greater trade, or may not be willing to accept the uncertainty associated with new policies (Rodrik 2000/1996, 68-70). As Rodrik puts it, economists can seek to “be helpful by providing guidelines about what national governments can and cannot do; what they should and should not do” (1998, 7).

From the perspective of political science, with its disciplinary focus on the polity, trade policies become independent variables that might have an impact on the quality of political life. If we assume, with Rodrik, that “the ‘price’ of free trade in goods, services, and capital is that international markets get greater say about the way national economies are managed and their

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<sup>1</sup>Globalization is not necessarily a new process. Tilly (1995, 1-2) says that in the past millennium, at least three processes of political and economic integration on a global scale took place, due to the Mongol empire of the 13<sup>th</sup> century, the onset of trade and European imperialism in the 16<sup>th</sup> century, and the colonization of most of the world during the 19<sup>th</sup> century. For additional discussion of globalization, see the special issue of *Government and Opposition* 28, no. 2 (Spring 1993).

<sup>2</sup> For brief syntheses of economists’ widely shared position on free trade, see Dornbusch 2000, 175; Rodrik 1998, 4-7.

wealth distributed” (1998, 4), then we must assume that democracy, as it has been understood and practiced to date, will change, as this price is paid.

Democracies are established at a nation-state level for the purpose of creating means by which citizens can hold someone accountable for the conditions in which they live. One of the primary bases upon which voters would hold leaders accountable, according to the political science literature on voting, is indeed *the way national economies are managed*, to use Rodrik’s phrase (cf., Weatherford 1983). Similarly, if indeed wealth distribution is increasingly subject to international markets, it has historically been considered a primary focus of national-level political competition. So if these issues are left to the control of international market forces, the scope of domestic political competition undergoes a dramatic change. This means that trade is not merely changing the capacity of states to control economies, but also changing the capacity of democratic citizens to control their economies, through their elected state leaders.

Of course, since *control* is antithetical to markets, any loss of control may be healthy from a macroeconomic perspective. Its effect on the health and character of democracy seems considerably more complex. Trade agreements (and international loan agreements, as well) infringe upon the sovereignty of states and constrain the options available to a state’s democratically elected leaders. More generally, economic globalization fundamentally changes all aspects of political life (Lechner 1998). It diminishes both the role of the nation-state and its capacity to act, while at the same time empowering a variety of other actors at both local and international levels (Stark 1998).

The promotion of trade creates a significant exposure to the influences of those local and international level actors beyond the state. First of all, the successful promotion of trade requires openness to information, ideas, and technologies—and thus to the influence of actors who provide these things. Secondly, competitiveness in trade requires an acute sensitivity to production costs, especially costs from labor or regulation that differ from those in competitors’ countries. Thus, involvement in trade constitutes an openness not only to markets, but to ideas and policies created by foreign actors.

This paper explores what such global exposure might mean for the civil and social aspects of democratic citizenship in Latin America. We start with discussion of the fundamental concept in democratic theory—citizenship. We first define the term and explain our reasons for focusing on the quality of civil and social citizenship in contemporary Latin American democracies. Next we examine recent arguments in the literature about how the global spread of market economics, including trade expansion in the developing world, might affect the conditions for full democratic citizenship. Finally, we test the relationship between trade and certain civil and social conditions experienced by Latin American citizens, using a pooled time series model with data from 18 democracies. Our analysis shows greater trade in the region was associated with changes in social spending patterns and increases in labor informality. These results provide empirical evidence that a deteriorated quality of citizenship may be associated with recent economic trends.

It should be noted here that we are not proposing that globalization or market-oriented forms could be stopped or should be reversed in order to improve democratic citizenship. We tend to agree with Stark's (1998, 70) suggestion that the internationalization of political, cultural, and economic relations cannot be ignored or avoided, for "once the world has been perceived and experienced in various ways as 'one place,' one's own cultural locale and social systems inevitably are framed in relation to the large whole." The question is, if dynamic economic contexts affect the character of the political regimes that operate within them, then what is that effect, and what does it mean for citizens? So our concern is not about whether expanded trade and other globalization proceeds, but about identifying and addressing its political consequences, including any negative externalities.

### Citizenship

"Citizenship" may be defined as formal inclusion in a political community—holding a passport and having the rights that go with it.<sup>3</sup> Questions about who holds a passport—who has the rights of citizenship—are affected by globalization given that the migration of labor, spurred by global economic conditions, creates substantial pools of "alien" workers without citizenship rights. Our interest in this article, however, is not the problem of who holds citizenship; rather, we focus on the question of whether, once formally included in a political community, citizens actually have the means and opportunity to exercise the rights that citizenship status promises.<sup>4</sup>

Citizenship has various components, as originally noted by J. H. Marshall (1950, 10-11), who identified three: political, civil, and social. In Marshall's typology, *political* citizenship refers to the rights to participate in the political process, as a candidate or voter. *Civil* citizenship refers to everyday freedom of speech, movement, work, property ownership, etc., and the right of all citizens to have those freedoms equally protected by judicial process. *Social* citizenship refers to the enjoyment of rights to such things as an education and to a decent and secure standard of living according to the norms of one's society (1950, 56). Focused on the United Kingdom, where civil citizenship was established much earlier in history than political citizenship, and where the latter arose much before social citizenship, Marshall perceived social rights as the culmination of the exercise of civil and political rights.<sup>5</sup>

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<sup>3</sup>For a discussion of citizenship as a "problem of inclusion," see Dahl 1989, 119-31.

<sup>4</sup>Roche (1995) has proposed that to speak only of national level citizenship is outdated. He proposes scholars study "post-national" citizenship, that is, memberships in political communities that are either larger or smaller than the nation-state, such as the human community that possesses universal human rights or the regional community established by the European Union. Similarly, Agh (1993) discusses the conditions necessary to promote "global citizenship." Here, we do not take up that conceptualization because our interest is in the quality of citizenship as a means to discuss the quality of existing democratic regimes, which are organized at the level of the nation-state.

<sup>5</sup>That is, unlike the proponents of "substantive" democracy, of the 1960s and 1970s, Marshall did not equate democracy with social participation and did not criticize liberal rights for masking social inequalities. Rather, Marshall saw political and civil rights as enabling the development of equal social

Comparative study of other cases suggests the sequence followed in the U.K. does not hold (Turner 1990). Under communist regimes, social rights existed without political rights. In most of Latin America today, political citizenship is guaranteed under a regime of competitive elections, but civil rights lag far behind. As O'Donnell (1998) puts it, the regime is democratic, but the state itself is not—it does not assure that all citizens are treated equally before the law. Examining the Brazilian case, Holston and Caldeira (1998) find citizens' political and even social rights are better protected than their civil rights. They see weak judicial institutions and the violent means by which the state (particularly the police) exercises its authority, as the causes of a "privatization of justice" and a widespread public disbelief in the possibility of equal protection under the law.

For Marshall, social rights were constitutive of full citizenship.<sup>6</sup> As political scientists in recent years have favored the analytical precision of narrow, procedural definitions of democracy over more substantive conceptions, social rights are less frequently defined as constitutive of full democratic citizenship.<sup>7</sup> They are instead conceptualized as evidence of a particular type of democracy—social democracy—which may be seen as a regime that meets the basic threshold of political and civil process, and adds social rights (e.g., Huber, Rueschemeyer, and Stephens 1997).

While many scholars do not define social rights as constitutive of democratic citizenship, they are nevertheless beginning to pay more attention to social rights as *instrumental* to civil or political ones. For example, Dahrendorf (1994, 14-5) argues that political and civil rights presume "enabling rights," by which people are empowered to use their freedom. The entrenched, excluded underclass in affluent Western democracies, he says, does not enjoy "the basic values of citizenship—equal rights of participation for all." Looking at post-transition Eastern Europe, Ferge (1996, 111-12) argues that a decline in social equity has undermined civil and political liberties, because economically insecure citizens are vulnerable to exploitation by those upon whom they depend for security (whether the government, or an employer with a pension plan). They cannot take part in political processes as free and independent citizens if they are in a position of vulnerability and dependency. O'Donnell (1998, 19) argues that severe social inequality deprives citizens of the capabilities to exercise their civil rights under the law.

While a comparative perspective shows social rights are not the culmination of a linear evolution of citizenship, nevertheless, political citizenship certainly facilitates the advocacy of social rights. Historically, the push for social rights came from the labor movements; more recently, labor has been joined by neighborhood, indigenous, and human rights movements. The

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rights.

<sup>6</sup>A similar "constitutive" vision is found in Wilson (1993).

<sup>7</sup> See Borón (1998, 43) for a critique of the procedural approach to democracy. For an insightful overview of dominant trends in conceptualizing democracy, see Agüero (1998).

expansion of suffrage and the emergence of social movements brought about populism in some cases, but democracy with social rights in others (Collier and Collier 1991; Manning 1993, 1319). Under democratic regimes, we expect citizens to use their political and civil rights to demand social inclusion. While democratic rules cannot guarantee that demands made through the political process will be met, nevertheless, persistent socioeconomic exclusion of some citizens may indicate the existence of barriers to the effective exercise of their political and civil rights to demand better conditions. If political and civil rights are strong, then we would expect citizens to succeed in advocating at least some improvements in their social conditions. Conversely, the suppression of political rights, as occurred for example in much of Latin America in the 1970s, may be a deliberate attempt by elites to impede demands for social rights and to facilitate reductions in already-attained rights (O'Donnell 1988). In short, to study democracies using the now-standard procedural conception of democracy that focuses only on citizens' political and civil citizenship, we nevertheless need also to study social conditions, because they may both facilitate and indicate the exercise of political and civil citizenship.

### **The Impact of Trade on Citizenship**

A growing literature argues that globalization processes are transforming citizenship, in all its forms. Most of these arguments focus on the transformative impact of the global market. One view of these transformations applauds them as positive for citizenship, particularly in the developing world. Where once the developmentalist state guided and financed economic progress, today the global free market model encourages a leaner state and a decentralization of decision making. If the state is no longer the locus of economic development or social progress, it is less likely to control and coopt the activities of citizens seeking those things. These changes might even enhance political citizenship, as autonomous business associations, neighborhood groups, and new social movements emerge, enabling citizens to exercise political rights (Roberts 1996, 57; Sheth 1995).

Another transformation frequently perceived as positive is that the expansion of global markets may involve a globalization of ideas, including norms of political and civil rights. Trade relationships depend upon well-functioning judiciaries and respect for the rule of law. Because marketers (as well as investors) need reliable judicial decisions, the U.S. government and various NGOs have become involved in helping to fund, re-organize, and educate Latin American judiciaries (Frühling 1998). These institutional improvements are a first step to extending the protections of law to all citizens.

On the other hand, a growing literature warns of that globalization may also affect democratic citizenship in negative ways. According to this literature, the effects of global market pressures do not stop with reducing the inefficiencies, populism, and corruption of the developmentalist state. While diminishing the state's capacity to control the economy, global market pressures also diminish the state's capacity to carry out other basic functions or to act for the commons. Particularly affected is the state's capacity to fund social policies. Studying Europe, Cameron (1978) had found that in 1960-75, the more open an economy, the more likely the state would take an activist role, using public spending as an antidote to counter-act the open

economy's vulnerability to outside influences. Today, in Latin America, that capacity for public spending is undermined by neoliberal norms and fiscal pressures. Austerity programs required by international lenders and by indebtedness, plus the trend toward privatization of what were once considered public goods, have resulted in smaller, but not necessarily more effective, states (Borón 1998, 56; Dryzek 1996; Lechner 1998, 33; O'Donnell 1993; Sassen 1996). Trade promotion also would seem to mitigate against social spending, since states do not wish to raise revenues for social programs, using taxes that might make add to the production costs of their exports.

With state sovereignty undermined by global forces beyond the state's borders, political citizenship loses effectiveness. There is, in Richard Falk's words, a "loss of democratic control over the course of history" (1997, 135). Citizens are heard last, after international financial institutions and after capital (Borón 1998, 54; similarly, Stark 1998, 76). Relatedly, given the tight constraints on the state's policy making, political parties offer few policy alternatives, diminishing citizens' choices at the ballot box (Falk 1997, 130).

A further argument in this literature suggests that global market competition may be fomenting inequality, both of result and of opportunity, resulting in an underclass that is socially excluded (Dahrendorf 1994, 1995). Given the political weakness just discussed, this underclass would have little capacity to demand social inclusion, such as job benefits and job security. Furthermore, by undermining state capacity, trade policies and related globalization forces "threaten all rights embedded in states, including workers' rights" (Tilly 1995, 18). The rights to strike or to bargain collectively are protected by the laws of the nation-state; however, those rights are abrogated, de facto, by a global labor market, which forces workers to compete against each other at an international level, while they are only organized for political action at a national level.

To summarize, as a country's insertion in the global economy increases, its exposure to pressures from international organizations and market forces would increase, and since those forces favor predictable institutional arrangements and open political processes, reliable judiciaries, and educated and healthy workers, their pressures should advance the political, civil, and social qualities of citizenship. This is the potential positive impact. At the same time, a growing literature expresses pessimism that elected governments may be responding more to a world market than to their own citizens. International organizations and market forces may be an obstacle to grassroots organization and thereby to the unions who defend labor rights. The quest for more trade, in a competitive world market, may discourage social spending that depends upon taxing business.

### **Testing Globalization's Impact**

In this paper, we begin to test the extent to which there is empirical evidence for the relationship between trade and civil and social rights, as predicted by the more pessimistic assessments of the political impact of globally-focused economies. To do so, we create three models. Model 1 tests the hypothesis that greater dependence on trade creates conditions that will

limit the capacity and willingness of the state to spend on social programs. Model 2 tests the hypothesis that, because greater reliance on trade will weaken the capacity of the state, greater trade openness should lead to a deterioration in the protection of civil rights.<sup>8</sup> Model 3 is devised in light of the arguments that because globalization subjects an economy to international competition to attract and keep foreign investors, it motivates state leaders to weaken labor protections and it precludes labor unions from effective organization and advocacy. The model tests the hypothesis that when an economy is more open to the global market, citizens have poorer conditions for work.

We use data from 18 American democracies: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Although the theoretical literature suggests that citizenship in *any* democracy will be affected by the global economy—and indeed, a good number of works cited earlier focus on Europe—those effects may manifest themselves quite differently in developing countries compared to advanced industrialized countries. In the advanced industrialized democracies, for example, both the level of political institutionalization and national wealth make globalization less of a threat to state capacity than the literature about Latin America predicts. Indeed, in analyzing the impact of globalization in Europe, scholars focus upon the potential advantages of the state’s reduced capacity to extract resources from the economy, with little concern about whether European states will retain the capacity to govern effectively. Observers of the Western industrialized democracies note how the welfare state is changing in a post-industrial age; in contrast, observers of Latin America note that as industrialization flourishes, the basic protections of the welfare state—which all the advanced industrialized democracies continue to assure—are not yet available across the population. Because of these substantial differences, cross-regional comparisons were not appropriate for the models tested below.<sup>9</sup> We considered including data from Eastern and Central Europe, but the post-communist legacy is quite different from that in Latin American countries—in terms of the institutional capacity of the state, the fiscal capacity of the state, the industrial basis of the economy, the weakness of civil society, and the status of social citizenship. Therefore, we would not expect the models tested here to perform in the same way in that region as in Latin America. In addition, because typically the communist regimes underwent transition several years later than the Latin American ones, combining the two regions in one pool would create a systematic imbalance in the time series.

### *Temporal domain*

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<sup>8</sup>This means we are trying to measure an indirect effect, but after several attempts, we found no satisfactory and available means to measure the complex concept of “state capacity” that is so important in the literature.

<sup>9</sup>In an earlier version of this work, we pooled together Latin American and European cases, using a dummy variable for region, and found that region was a consistently strong predictor of our dependent variables. See Powers and Kostadinova 1999.

Our temporal domain begins in 1980 or in the first year of a democratic regime, whichever was later. This domain was determined by our research question. First of all, we included only years when a regime was democratic, because our interest is in the quality of *democracy* as experienced through civil and social aspects of citizenship.<sup>10</sup> If the quality of civil rights in non-democracies were included in the study, we would be testing not the quality of the democratic regime, but the qualities of authoritarian regimes—and we would expect the quality of citizenship in authoritarian regimes to be low by virtue of the regime, regardless of a country’s integration into the global economy. So (after verifying its face validity), we used the Polity III data set to date the onset of a democratic regime as the year in which the DEMOCRACY-AUTOCRACY score became positive.<sup>11</sup> Most of the countries made this transition to democracy during the last 25 years.

Next, we limited our study to 1980 and beyond, in order to assure that variation in trade would be most likely to indicate openness to the globalization process of interest to us here. We chose 1980 as the approximate start of that shift toward a more intensified global integration, because the global turn to freer markets was encouraged the policies of Margaret Thatcher (elected in 1979), Ronald Reagan (elected in 1980), and the international financial institutions involved in debt repayment, following the 1981 debt crisis.<sup>12</sup> By limiting the study to the period after the recent shift toward market openness, we also controlled for significant political and social events that could have driven variation in the quality of social or civil citizenship during earlier periods (such as the Alliance for Progress, reverberations from the Cuban Revolution, or expansions of literacy and voting rights in the 1960s and 1970s).

### *Variables*

Table 1 provides descriptive statistics for the major variables used in our models. The dependent variables in our models are intended to capture various aspects of civil and social citizenship. **Civil rights** (as well as the independent variable, **political rights**) are measured using

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<sup>10</sup>Our thinking on this point follows that of Alvarez, Cheibub, Limongi, and Przeworski (1996, 21) who argued that “while democracy can be more or less advanced, one cannot be half-democratic; there is a natural zero point.”

<sup>11</sup>The Polity III data set is available at <ftp://isere.colorado.edu/pub/datasets/polity3/politymay96.data>. See Jagers and Gurr (1995) for details.

<sup>12</sup> An indication of how much the world has changed since the early 1980s is found in the language of an important article on public revenues, published in 1978, in which the author felt compelled to explain that “nations are not wholly autonomous and entirely independent of the external world. In fact, certain nations are highly dependent on their external environments as markets for export goods or sources of capital. . . . *Even* in the larger nations, such as the United States and Japan, however, the economies are not impervious to the international economy” (emphasis added, Cameron 1978, 1249). Given the on-going debt crisis in poor nations, the Mexican peso devaluation and its aftermath, and most recently, the nearly-global recession sparked by the Asian monetary crisis, it would be difficult to imagine a political scientist having to explain such things today.

the 7-point scales in the Freedom House data set. We have inverted that scale so that 7 indicates the strongest civil (or political) rights and 1 indicates that such rights do not exist at all. Freedom House scores for each country consist in experts' judgments of the actual, rather than formal, conditions of civil and political liberties in a country. The civil liberties score is based on thirteen criteria, including freedom of the press, discussion, assembly, religion, and professional and political association, as well as "social freedoms" (gender equality and freedom to marry, move, own property, have children, etc.), plus equality under the law, equality of opportunity, and freedom from government corruption. The political liberties scale is based on eight criteria, including whether executive and legislative officials are chosen in free and fair elections, the fairness of electoral laws and campaigns, rights of political parties, existence of a real opposition, rights of minorities, and freedom from domination by non-elected powers. The Freedom House measures of civil and political rights are very highly correlated, so unfortunately, we cannot use these measures to test the interactions between civil and political citizenship, which the literature predicts.

The quality of the social conditions may be improved by state spending for health, education, and welfare programs. We measure the state's capacity and willingness to address social issues using annual central government expenditures on health, education, social security and welfare programs, as a percentage of total central government spending (**social spending**).<sup>13</sup> A second indicator of social citizenship is the opportunity to make a living wage. We use two measures of the quality of the labor market recently collected by the United Nations Economic Council on Latin America and the Caribbean (ECLAC 1998, 96-97) and available only for the 1990-97 time period. The first measures individuals with **insufficient income** as a percentage of the total employed population. The second measures the percentage of workers with job instability, lacking benefits, and other indications of the **informal sector**.<sup>14</sup>

Turning to our independent variables, **trade** was measured by imports and exports of goods and services divided by Gross Domestic Product (GDP). For the purpose of estimating the models, we use the natural logarithm of the trade/GDP figure. Note that this is not a measure of the openness of the trade regime—that is, of the relative level of barriers to trade. It is a measure of the actual involvement in the global economy via trade. Although level of trade is not a perfect indicator of the liberality of trade regimes (Edwards 1997, 3; Harrison 1995, 6), and indeed as the East Asian countries demonstrated in the post-war decades, outward-oriented growth policies can be pursued without trade liberalization (Rodrik 2000 [1996], 63), nevertheless, in the last two decades, the pursuit of *more* trade has taken place via policies to promote *freer* trade.

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<sup>13</sup>Government expenditure data per International Monetary Fund (various years).

<sup>14</sup>ECLAC reports these "other employment quality indicators [that] have to do with job stability and benefits" for six of our countries. The particular indicator varies for each country but is consistent through its time series. See ECLAC (1998, 97) for details.

It is well established that democracy is correlated with the level of economic development, so in testing the impact of openness on conditions affecting citizenship, we control for development level. Specifically, we expect that where the economy is prospering, the state has the fiscal capacity for social spending. Moreover, when citizens are educated, healthy, and accustomed to a certain standard of economic development, we expect that they will be more likely to demand social spending to sustain and better that standard. We also expect that education and a decent standard of living diminish the vulnerability of citizens to abuses by police or prosecutors. The Human Development Index (HDI), created by the United Nations Development Program, enables us to control for the overall health, education, and development levels in the country. It is based on measures of educational attainment, life expectancy, and distributable wealth, as measured by, respectively, adult literacy and school enrollments (including primary, secondary, and tertiary schools); life expectancy at birth; and GDP/capita (as measured by Purchasing Power Parity dollars and adjusted by the world average income).<sup>15</sup> The index ranges from 0.0 to 1.0, where 1.0 is the highest level of development (UNDP 1997, 122).

Since we expect that protection of civil rights is partly a function of institutionalization, and that the latter occurs gradually after transition, we control for the longevity of the democratic regime. We measure **longevity** by the number of years since the last transition toward democracy, where the last transition year (which may be before 1980) is determined by a positive Democracy-Autocracy score in the Polity III data set. Since the need for social spending would be affected by **population** growth, Model 1 also controls for the size of the national population, using data available from the U.S. Census Bureau.

Because we expect that the degree of **political rights** affects the capacity to demand better labor conditions and higher social spending, the Freedom House measure of political rights (explained above) is used as a control variable. Finally, because social spending responds not merely to current needs, economic realities, or political pressures, but also to pre-existing entitlement programs and a certain inertia in spending decisions, Model 1 controls for previous levels of social spending by lagging the social spending measure.

### Hypotheses

In each model, our null hypothesis is that the level of trade does not have an impact on the quality of social or civil citizenship.

**Model 1** tests the lagged effect of trade upon the state's social spending as a percentage of total spending, controlling for previous social spending, population, human development level, and political rights.<sup>16</sup> We hypothesize that greater openness to the global economy via trade will

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<sup>15</sup>The methodology for computing HDI is reported in UNDP (1997, 122).

<sup>16</sup> One might object that a *low* HDI should be associated with greater spending, since low HDI indicates the *need* for greater social spending; however, that need does not necessarily translate into political *demand* and policy decision, unless civil society and political institutions

be associated with lower levels of social spending. We hypothesize the effects of our control variables to be as follows: a higher political rights score, a higher HDI score, and a larger population should all be associated with greater levels of social spending. The model to test these hypotheses is:

$$\text{Social spending}_{i,t} = a + b_1 \text{Lntrade}_{i,t-1} + b_2 \text{Political Rights}_{i,t} + b_3 \text{Social spending}_{t-1} + b_4 \text{HDI}_{i,t} + b_5 \text{Lnpopulation}_{i,t} .$$

We expect the beta coefficients on trade to be negative, and on political rights, social spending<sub>t-1</sub>, HDI, and LnPopulation to be positive.

*Model 2* tests the lagged effect of trade upon civil rights, controlling for human development and the age of the democratic regime. We hypothesize that when an economy becomes more open to the global economy via increased trade, that economic conditions would ensue that engender lower scores (i.e., worse performance) on civil rights. For our control variables, we hypothesize that a higher HDI score and greater longevity of the democratic regime would both be associated with higher scores (i.e., better performance) on civil rights. We test these hypotheses with the following model:

$$\text{Civil Rights}_{i,t} = a + b_1 \text{Lntrade}_{i,t-1} + b_2 \text{HDI}_{i,t} + b_3 \text{longevity}_{i,t}$$

Thus, we expect the beta coefficients on trade to be negative, and those for HDI and longevity should be positive.

Model 3 tests the lagged effect of trade upon the quality of labor opportunities that citizens face, as measured by two different variables, tested separately. In each case, we control for the capacity of citizens to demand better labor opportunities through the exercise of their political rights, and we control for the overall level of economic and social development of the country as measured by HDI. We hypothesize that greater openness to the global economy via trade will be associated with worse labor opportunities, as measured by greater insufficiency of income and a larger informal sector. For our control variables, we hypothesize that a higher HDI and higher political rights score will be associated with lower measures of insufficient income and informal sector employment.

*Model 3A:*

$$\text{Insufficient Income}_{i,t} = a + b_1 \text{Lntrade}_{i,t-1} + b_2 \text{HDI}_{i,t-1} + b_3 \text{Political Rights}_{i,t}$$

*Model 3B:*

$$\text{Informal sector}_{i,t} = a + b_1 \text{Lntrade}_{i,t-1} + b_2 \text{HDI}_{i,t-1} + b_3 \text{Political Rights}_{i,t}$$

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provide means for needs to be addressed by policy. So, ironically, higher social spending is expected where need is less severe.

Thus, we expect the beta coefficients on trade to be positive and on HDI and political rights to be negative.

### **Methods**

We use time series cross-sectional analysis (TSCS) to estimate the regression coefficients of our three models. Choosing the appropriate TSCS estimator depends upon the structure of the data. In this case, because not all countries had democratic regimes through the entire time series and because data were not available for all years for all countries, we have an unbalanced pool. There are 18 cross-sections, with 3 to 16 observations per cross-section. Following Beck and Katz (1995), we use OLS with panel corrected standard errors (PCSE) to obtain our regression coefficients.<sup>17</sup>

### **Results**

Model 1 tests the hypothesis that trade would have a negative impact upon the state's capacity and willingness to increase levels of social spending. The results are reported in Table 2. The estimated coefficients are in the predicted direction for all variables except political rights, and all are statistically significant. As hypothesized, increased trade has a negative impact on social spending (that is, on programs that might improve social citizenship). Note that lower social spending was not simply a function of lower social need, as indicated by the strong positive correlation between HDI and social spending.

The country's level of economic and social development is a significant predictor of its social spending, as shown by the findings for HDI. A change of 0.1 (on a scale of 0 to 1.0) in the HDI is estimated to bring about a 10% average increase in the level of social spending.

The model estimates that a one unit increase in the natural log of trade would lead to an average of a 2% decrease in the percentage of government spending allotted to social programs in the following year. Because the natural logarithm is an exponential function, the difference between logged values diminishes as the values increase. Therefore, the meaning of a one unit change is not constant. Nevertheless, an example may help in the interpretation. A country, whose trade is 19% of its GDP has a natural log of trade of 2.94, whereas a country with trade constituting 50% of GDP has a log of trade of 3.91, a change of approximately 1 unit. This suggests that the relationship we find between trade and social spending within a particular country is substantively small (since no country would experience such a large shift in trade level from year to year), but the relationship we find across countries is substantial. Countries with high trade levels spend less on social programs than those with low trade levels, even controlling for level of development and prior social spending.

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<sup>17</sup>Note, in recent weeks, the authors of the STATA software used to analyze our data have created a patch to correct certain late-discovered problems. Having just learned of this patch, we were not able to obtain it to re-analyze the data prior to this conference. We do not know that the changes are pertinent to our analysis structure, but we will be happy to provide interested readers with the reanalysis as soon as available.

Model 2 tests the effect of trade upon civil citizenship, while controlling for age of the regime and for citizens' social conditions. Table 3 reports the results. The estimates are all in the predicted direction, but the estimate for trade is not statistically significant. Plotting the mean values of civil rights and regime longevity reveals that Chile is an outlier, which is explained by the long constitutional tradition to which it quickly returned following the end of the Pinochet regime. We tested model 2 without Chile and found very similar results for HDI and longevity to those reported in Table 3, but the coefficient for trade became positive (not the hypothesized direction) and significant. The value of the coefficient, however, was minuscule (0.01). These results leave us unwilling to accept or reject the null hypothesis on the basis of this analysis. If an expansion of an outward-oriented economy creates economic vulnerabilities that undermine the capacities of poor citizens to defend themselves against civil rights abuses, that impact is too indirect or too subtle to be picked up by our indicators.

In Model 2, as predicted, the longevity of the democratic regime was positively associated with civil rights, although the size of the coefficients suggest the greatest impact on civil rights comes from HDI. The HDI ranges from 0.0 to 1.0. Using the 1994 HDI scales as an example, Latin American countries that differ by approximately 0.10 on the scale are Argentina and Brazil, or Paraguay and El Salvador, whereas Ecuador and Honduras differ by 0.2. The regression coefficients estimate that an improvement of 0.1 on the HDI improves the civil rights score by about one third of one point on the Freedom House scale. Because that scale has only seven points to code a range from no rights to full rights, each of the seven steps on the scale represents a qualitatively different level of civil citizenship. Therefore, the one-third step change in civil rights estimated to be associated with a 0.1 change in HDI is not insubstantial.

#### TABLES 2 and 3 ABOUT HERE

Model 3 tests the relationship between trade and the quality of work opportunities that citizens face, as measured by two variables. Tables 4 and 5 report the results. Where poor work opportunity is measured by the percentage of the working population with insufficient income (Table 4), our estimated coefficient for trade is not in the predicted direction but also not significant. As anticipated, HDI is strongly correlated with the percentage of the population with insufficient income. The coefficient for political rights is in the predicted direction, but not significant. Where poor labor opportunity is measured by the level of informality of the labor market (Table 5), the model performs very well. All coefficients are in the expected direction, significant, and of substantial magnitude. A one unit change in the log of trade is estimated to create a 9% increase in the informality of the labor force. A one-step increase in the seven-step political rights scale is estimated to bring about a 4.8% decline in the informality of the work force. A decline of 0.1 in HDI is estimated to be associated with a 9.4% increase in the informality of the work force.

#### TABLES 4 and 5 ABOUT HERE

## Conclusions

These results suggest that greater trade exposes citizens to a competitive environment and to labor market conditions in which their social citizenship could be undermined. Specifically, we find support for arguments that greater exposure to the global economy via trade is associated with lower social spending levels. The correlation is strong. Within a given country, the substantive impact is small, but between countries with substantively different degrees of trade, our data predict substantively different levels of social spending, even after controlling for pre-existing levels of development, previous social spending, and population. This suggests that while there may not be immediate cause for the alarm that pessimists feel, over the long term, greater involvement in global markets via trade may lead to a lessening of the state's commitment to social spending, and this would have consequences for social citizenship. Even incremental declines in social spending can have substantive impacts on the social side of citizenship, to the extent that low social spending leads to a decline in the human capital (education, resources, health) people need in order to exercise their citizenship freely and effectively.

We also find support for a relationship between exposure to the global economy via trade and an increase in informal sector employment. This finding lends credence to critics who argue that exposure to global markets has encouraged sweatshop-type jobs. This has serious ramifications not only for the quality of life (because of the lack of job benefits), but also for the quality of democracy. Citizens who work in the informal sector lack labor unions--the basic political tool that workers in the advanced industrialized countries used, during *their* industrial revolution, to take political action to improve wages and working conditions. Moreover, a citizen working in the informal sector is working outside the law--sometimes consciously avoiding the law enforcement that would demand to see their vending license or tax receipts. That worker is likewise cut off from the social security benefits to which working citizens are entitled. The informal sector is certainly not marginal to the economy and its workers may well participate in the political system in the arena of reproduction (home and neighborhood) rather than production (Perlman 1976), but nevertheless, informal sector workers are not able to enjoy the full rights and opportunities of citizenship. Their informal condition leaves them outside the law and economically insecure and that vulnerability is antithetical to political empowerment.

While we did not find the expected relationship between exposure to the global economy and quality of civil rights (nor the expected impact of our control variable in models 1 and 3, political rights), this may be because of the inadequacies of the seven-point Freedom House measures of civil and political rights. These measures were not designed to capture the relatively small and gradual changes in capacity to exercise citizenship that are envisioned by the critical literature reviewed earlier. The poor results in Model 2 could also be because we could not devise a satisfactory way to operationalize the intervening factor discussed in the literature--state capacity. Further research is needed to identify better means to study the rich and complex path from globalization to state capacity to civil citizenship, which is predicted in the literature. Yet we believe that the present paper is a necessary first step in demonstrating some of the empirical effects on social citizenship associated with exposure to global pressures via trade.

**Table 1: Variables**

	<i>LnTrade</i>	<i>Political Rights</i>	<i>HDI</i>	<i>Social Spending</i>	<i>Civil Rights</i>	<i>Insufficient Income</i>	<i>Informality</i>
Mean	3.89	5.73	0.725	41.68	5.21	17.52	37.57
Standard Deviation	0.57	1.13	0.118	14.34	1.03	6.104328	15.60
Minimum	2.59	1	0.394	18.93	2	8.1	15
Maximum	5.27	7	0.916	74.34	7	29.1	62.1
n	247	238	231	182	249	43	34

**Table 2.** Model 1-- OLS with PCSE coefficients about the impact of trade level, political citizenship, and HDI on percentage of **social spending**.

VARIABLE	COEFFICIENT
$\ln\text{Trade}_{i,t-1}$	-2*** (.69) <sup>a</sup>
$\text{Political Rights}_{i,t}$	-.59* (.34)
$\text{Social spending}_{i,t-1}$	.89*** (.04)
$\text{HDI}_{i,t}$	10.8* (6.2)
$\ln\text{Population}_{i,t}$	-1.09** (.48)
constant	25.88*** (10.12)

- a. Standard errors in parentheses.  
 \* Significant at .05 (one-tail test)  
 \*\* Significant at .025  
 \*\*\* Significant at .01

**Table 3.** Model 2-- OLS with PCSE coefficients about the impact of trade level, HDI, and longevity of the democratic regime on **civil rights** score.

VARIABLE	COEFFICIENT
$\ln\text{Trade}_{i,t-1}$	-.15 (.15) <sup>a</sup>
$\text{HDI}_{i,t}$	3.14*** (.71)
$\text{Longevity}_{i,t}$	.023*** (.007)
constant	3.08*** (.82)

- a. Standard errors in parentheses.  
 \* Significant at .05 (one-tail test)  
 \*\* Significant at .025  
 \*\*\* Significant at .01

**Table 4.** Model 3A-- Impact of trade level, political rights and HDI on the percentage of **workers with insufficient income**.

VARIABLE	COEFFICIENT
$\ln\text{Trade}_{i,t-1}$	-1.9 (2.07) <sup>a</sup>
$\text{HDI}_{i,t}$	-35.04*** (9.3)
$\text{Political Rights}_{i,t}$	-.62 (.86)
Constant	48.04***(13.3)

- a. Standard errors in parentheses.  
 \* Significant at .05 (one-tail test)  
 \*\* Significant at .025  
 \*\*\* Significant at .01

**Table 5.** Model 3B -- Impact of trade level, political rights and HDI on the **informality of work force**.

VARIABLE	COEFFICIENT
$\ln\text{Trade}_{i,t-1}$	9.3*** (2.9) <sup>a</sup>
$\text{HDI}_{i,t}$	-94.2*** (23.2)
$\text{Political Rights}_{i,t}$	-4.8* (2.6)
Constant	104.5***(23.9)

- a. Standard errors in parentheses.  
 \* Significant at .05 (one-tail test)  
 \*\* Significant at .025  
 \*\*\* Significant at .01

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