
2 / The Impact of Globalisation and Global Economic Crises on Social Cohesion and Attitudes towards Welfare State Policies in Developed Western Democracies

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1. Introduction

The effects of increased market integration and the reduction in restrictions to trade and financial transactions have been at the centre of academic discussion in many fields in the past few decades. The clear consensus among academics and politicians is that globalisation has affected domestic policymaking in numerous ways as governments and citizens have had to adapt to the new rules of a globalised environment. This chapter (and the next one) focuses on the effects of market integration and internationalisation on Western democracies, taking a contemporary view of the impact of market integration that arguably started in the 1970s on individual preferences, institutional developments and economic policymaking.

The following analysis attempts to track how, and in what ways, market integration and internationalisation have affected the micro and macro levels of policymaking. To understand policy outputs and outcomes, it is important to understand how governments make decisions on economic and other policy matters. This chapter, therefore, seeks to gauge whether and how globalisation has affected individual preferences and attitudes towards market integration itself, as well as related questions such as immigration and preferences for public spending and redistribution. These changes in preferences do not necessarily have a direct impact on policymaking, but through their effect on individual voting behaviour they determine who will hold office and who will decide about policies. One notable aspect in Western democracies today is the increased importance of extremist and right-wing parties. This chapter thus attempts to link voter choice for these parties to individual preferences that might have shifted because of globalisation.

Globalisation seems to be a notion that induces uncertainty in individuals and is often used as a straw man by policymakers to justify certain policy choices. Indeed, what one calls globalisation generates real measurable effects on the economy that can be both positive and negative. As Rodrik (1997a, 1997b, 1998) so forcefully demonstrates, one aspect of globalisation, namely trade openness, in general increases overall welfare in a country; however, this always comes with distributional consequences because it generates winners and losers. And if the group of losers is relatively large, it needs to be compensated in order to maintain social peace and generate the necessary electoral support to implement

policies that allow for market integration and a reduction in barriers to trade and financial transactions.

Globalisation creates uncertainty about distributional consequences not just for policymakers, but also for individual voters. Market integration can lead to greater volatility (Rodrik, 1997a, 1997b, 1998; Cameron, 1978, among others), job uncertainty, and tax and regulatory competition affecting the ability of governments to gather revenue. Governments in Western democracies face a trade-off between higher demands for social security and compensation on the one hand, and the necessity of making the domestic economy more competitive and efficient, on the other.

The uncertainty created by market integration about job security and future economic development can spur not only the demand of voters for compensation in the form of social security, but also calls for protectionist tendencies. Protectionist preferences come in different guises, such as general demands for protecting the domestic economy, negative attitudes towards the influx of immigrants, appeals for redistributionist policies etc. These shifts in individual preferences and attitudes – if sufficiently widespread – will influence policy outcomes in democracies because incumbent governments need to take the preferences of a majority of voters into account if they want to stay in office or have at least a reasonable chance of being re-elected. If incumbent governments fail to respond to such pressures, voters will not necessarily shift their political allegiance to another mainstream political party, but instead may back more anti-immigrant, extremist right-wing parties which are then able to attract a larger share of the vote.

Globalisation-induced preferences and uncertainties are often reinforced by external shocks, such as economic and financial crises, as well as other events, notably terrorist attacks. To understand the diverse effects of globalisation on political and economic outcomes, it is essential first to understand how it shapes individual preferences.

2. Preferences towards globalisation and market integration

Politicians of course prefer winning elections to losing them. When in office, they can implement policies they deem necessary to improve the performance of the domestic economy as well as people's personal wellbeing and welfare. Everything else being equal, therefore, incumbents have to implement policies that win them – depending on the electoral system – enough votes to stay in office. Policymakers in most OECD countries often refer to the constraints they face because of globalisation and use this argumentation to implement lower taxes on capital and corporations and higher taxes on less mobile assets, such as labour and consumption, to reduce welfare spending, and in some cases to push through austerity measures.

Since the turn of the century European heads of state and their finance ministers have put the spotlight on globalisation in order to reduce taxes for mobile capital and high-profit multinational enterprises. For example, Peer Steinbrück, Germany's finance minister under Angela Merkel in 2005-09, announced planned corporate tax reforms in order to respond to global pressures: "We want to make Germany ... better able to compete with other tax locations surrounding us ..." (*Financial Times*, July 12th 2006).

In his budget speech on March 21st 2007 the British chancellor of the exchequer, Gordon Brown, announced a fiscally neutral corporate tax reform which followed the tax-cut-cum-base-broadening principle. The reform benefited highly profitable multinational enterprises but was a drawback for smaller firms with lower profits and companies with large plants in the UK by cutting back tax credits. Once again, this measure was justified by global tax competition pressures caused by the financial integration of world markets. More recently, in response to the financial crisis, the then leader of the opposition, David Cameron, rejected suggestions by prime minister Brown that he had shifted his party's emphasis from "austerity" measures to tackle the budget deficit to one of growth in response to fears that the Conservative Party's poll lead at the time was under pressure (*Financial Times*, November 23rd 2009).

The long shadow of globalisation seems to serve policymakers well when having to implement unpopular financial measures and reducing welfare spending. This gives rise to two questions: how strong is the international pressure in reality, and how much do policymakers play on popular fears in order to stay in office? Giving the relevant answers requires addressing the question whether voters do indeed care about their country's exposure to international markets.

The comparative political economy literature on this topic follows two main lines of argument. The first addresses differences across countries: do voters in countries that are more integrated in international markets have a distinctively different attitude towards globalisation? The second distinguishes between voter preferences within countries. Since it is an economic fact that openness to trade not only increases overall welfare but also generates distributive conflicts (Rodrik, 1994), the question becomes whether winners and losers from globalisation within one economy have distinguishable preferences with respect to globalisation. The difficulty for governments then seems to be to predict a) the size of the overall welfare gains, b) who wins and who loses from market integration, and c) how big are the groups of winners and losers in order to gauge the necessity for redistribution across these groups.

With respect to the first question, there is ample empirical evidence demonstrating that voters in economically more exposed countries show significantly more negative attitudes towards internationalisation and market integration than voters in more closed economies (for a revision of the relevant empirical literature see Ruoff and Schaffer, 2012). This research suggests that the median or decisive voter a) perceives globalisation as a threat and b) is able to judge the extent to which the domestic economy is integrated into world markets. In turn, this implies that individuals in more exposed countries expect higher compensation to offset the risks involved than those in more closed countries, thereby putting governments under additional spending pressure.

This is one of the major arguments in comparative political economy dubbed the compensation hypothesis (Rodrik, 1997a, 1997b, 1998; Cameron, 1978; Garrett and Mitchell, 2001; Ruggie, 1982; Katzenstein, 1985). Supporting empirical evidence for the compensation hypotheses is manifold (Hicks and Swank, 1992; Garrett, 1998; Rodrik, 1997a, 1997b, 1998; Bernauer and Achini, 2000; Burgoon, 2001; Garrett and Mitchell, 2001), but is also widely contested. Some scholars question the openness-volatility-welfare nexus (Down, 2007; Kim, 2007), for example that more economic openness leads to higher volatility of domestic markets – especially labour markets – and that voters consequently demand greater government welfare spending to compensate for these higher

risks. Others find that changes in economic openness and globalisation in general have had a negative impact on public spending (inter alia, Rodrik, 1997a; Garrett, 2001; Genschel, 2002; Busemeyer, 2009), in effect supporting the so-called efficiency hypothesis.

As a result of the mixed empirical backing for the compensation argument, a number of researchers argue for a more nuanced understanding of the relationship between globalisation and the welfare state (for example, Adserà and Boix, 2002; Swank and Steinmo, 2002; Mares, 2004, 2005; Rickard, 2006; Pluemper et al., 2009; Pluemper and Troeger, 2012). The compensation hypothesis quite often ignores the question of winners and losers and the implication for redistributive policies. This is probably why the empirical evidence supporting or rejecting the compensation hypothesis remains highly mixed – governments in more open countries do not necessarily spend more on social security and welfare programmes. In addition, even if voters realise they live in a country that is more affected by international integration and they then develop negative attitudes towards globalisation and demand higher compensation for individual risks it provokes, this does not necessarily mean that policymakers will respond by increasing spending on public good provision (Ruoff and Schaffer, 2012; Walter, 2010).

It is only when members of society view themselves as losers from globalisation and they are a group large enough to influence electoral outcomes that the question of compensation via redistribution of gains from trade becomes important for politicians (Hays, 2009). However, as Rodrik (1994) argues convincingly, the distributive effects of liberalisation are hard to predict, and preventive compensation policies are difficult to implement. This is because individual winners and losers from trade are hard to determine, and their distribution varies across countries.

A key question to answer, therefore, is which factors determine whether an individual will win or lose from different kinds of market integration. Factoral models (Stolper-Samuelson; Heckscher-Ohlin – see Alt et al., 1996) and sectoral models (Ricardo-Viner – see Alt et al., 1996) generate different predictions about redistributive effects of trade openness, and more recent trade models integrate different aspects of these baseline models and argue that a combination of skill-specificity and sectoral exposure determines an individual's risk from increased market integration (Hiscox, 2001; Hays, 2009; Melitz, 2003; Helpman et al., 2008; Walter, 2010).

At the micro level, ample evidence exists suggesting that individuals are able to discern whether they belong to the group of winners or losers from market liberalisation. Several studies show that an individual's risk exposure (for example, in terms of skill specificity) tends to have a statistically significant effect on their perceptions of economic insecurity (Cusack et al., 2006; Anderson and Pontusson, 2007). This alters their preferences with respect to redistribution and compensation via public spending and welfare programmes.

Relying on a Heckscher-Ohlin model, Scheve and Slaughter (2001) show that the factor (labour vs. capital) from which individuals receive income influences attitudes towards trade barriers. Based on individual level data for the United States, they show that factor type dominates industry of employment in explaining support for trade barriers, particularly among lower-skilled workers. Scheve and Slaughter (2004) furthermore support the notion that the multinationalisation of the production process in a country increases the insecurity of workers who,

in turn, demand higher levels of compensation. They show that foreign direct investment (FDI) by multinational enterprises boosts the elasticity of labour demand. More elastic labour demands, in turn, raise the volatility of wages and employment, all of which tends to make workers feel less secure. They present empirical evidence, based on the analysis of 1991-99 panel data from the UK, that FDI activity in the industries in which individuals work is positively correlated with individual perceptions of economic insecurity.

Providing more indirect micro-level evidence on the openness-structural adjustment-insecurity link, a number of studies on the determinants of individuals' trade policy preferences show that individuals who stand to gain economically from trade liberalisation and, to some extent, individuals employed in industries with a comparative advantage are more likely to express a preference for trade liberalisation than individuals who stand to lose from such measures (Scheve and Slaughter, 2001; Baker, 2005; Hays et al., 2005; Mayda and Rodrik, 2005; Hays, 2009).

Mayda and Rodrik (2005) show that individuals in sectors with a comparative disadvantage have a negative attitude towards trade, whereas individuals with a better economic status, or those in non-traded sectors, tend to be pro-trade. Hence, they find support for both the Heckscher-Ohlin and the Ricardo-Viner models. Pushing the boundaries beyond standard trade theory models, they find that social status, relative incomes and values play an even more important role. Their findings also support the argument that individuals with higher relative incomes are more likely to favour trade than those with low relative incomes.

Hays (2009) sets out to test the embedded liberalism claim. First, he shows that individuals who work in the tradable industry, and particularly in the import competing industry, as well as the unemployed and those with low education levels, are generally opposed to free trade. He then goes on to show that these negative attitudes about trade can be mitigated through compensation in the form of unemployment programmes and, to a lesser extent, government programmes.

Walter (2010) empirically tests the micro-level implications of the compensation hypothesis more directly with individual data from Switzerland and finds that globalisation losers are more likely to express feelings of economic insecurity. Such feelings, in turn, increase preferences for welfare state expansion, which then increase the likelihood that they will vote for the Social Democratic Party. The analysis also shows that globalisation losers and winners differ significantly with regard to their social policy preferences and their propensity to vote for left-leaning parties.

This finding is interesting insofar as it implies that incumbent politicians, in particular, need to take the fears of globalisation losers into account when making decisions on their welfare state spending if they want to win future elections and stay in office. Of course, left-wing parties do tend to emphasise the negative implications for globalisation losers, while more right-wing and pro-market liberal parties usually underline the welfare gains generated from market integration to turn election results to their advantage.

In summary, international economic integration has changed the rules of the game. Trade and financial openness does generate overall welfare gains, but it also causes distributional conflicts. For governments and voters alike, it is not always easy to judge who will be the winners and losers from globalisation, and

this creates uncertainties and fears at the individual level, so governments must react to the increased demands for social insurance. Inevitably, governments will respond very differently to such challenges, and countries will follow diverse strategies depending on the tradition of the welfare state. Indeed, much will depend on the extent to which societal norms are driven by fairness and a sense of individual vs. communal responsibility.¹

3. Attitudes towards immigration in Western democracies

Globalisation does not refer just to trade integration and the internationalisation of capital markets. It is also linked to the integration of labour markets, and thus to the reduction of barriers to immigration. Indeed, one of the defining features of the EU is the free movement of labour among its member states. However, during the last wave of enlargement, which included most East European countries, several existing members, such as Austria and Germany, opted to restrict immigration from the new members, at least for a certain period of time.

This decision by the Austrian and German governments was clearly triggered by electoral concerns. Incumbent politicians were afraid of losing votes, not only because citizens voiced their worries that increased inflows of cheap labour might pose a risk to their own jobs, but also because such inflows generate cultural tensions. As the next section will show, these anti-immigrant sentiments can and will be used as arguments by extremist right-wing parties to bolster their electoral prospects.

It is not just the free movement of labour which plays a role in anti-immigrant sentiments; globalisation in general makes it easier for individuals to cross borders. These factors, together with highly visible, large-impact attacks by international terrorists in the past decade, have spurred fears and generated more outspoken anti-immigrant sentiments among many citizens in Western democracies.

Recent estimates by Goldin and Reinert (2006) suggest that close to 11 million individuals migrate in any given year. Even though this seems like a large number, it means that worldwide only one in 600 individuals changes his or her country of residence over a 12-month period. The stock of migrants, however, is larger: according to the United Nations, in the year 2000 about 175 million people, or 2.9% of the global population, lived outside their country of birth (Goldin and Reinert, 2006). Still, comparing these figures with the volume of trade as a share of world GDP or with the large flows of capital in international markets, Facchini and Mayda (2008) conclude that the world is experiencing a wave of globalisation that includes everything but labour. They argue that this is the result of restrictive migration policies implemented by destination countries. In democratic societies, the individual attitudes of voters represent the foundations of policymaking. Therefore, to understand policy outcomes, it is important to understand the patterns and determinants of voters' opinions towards immigration.

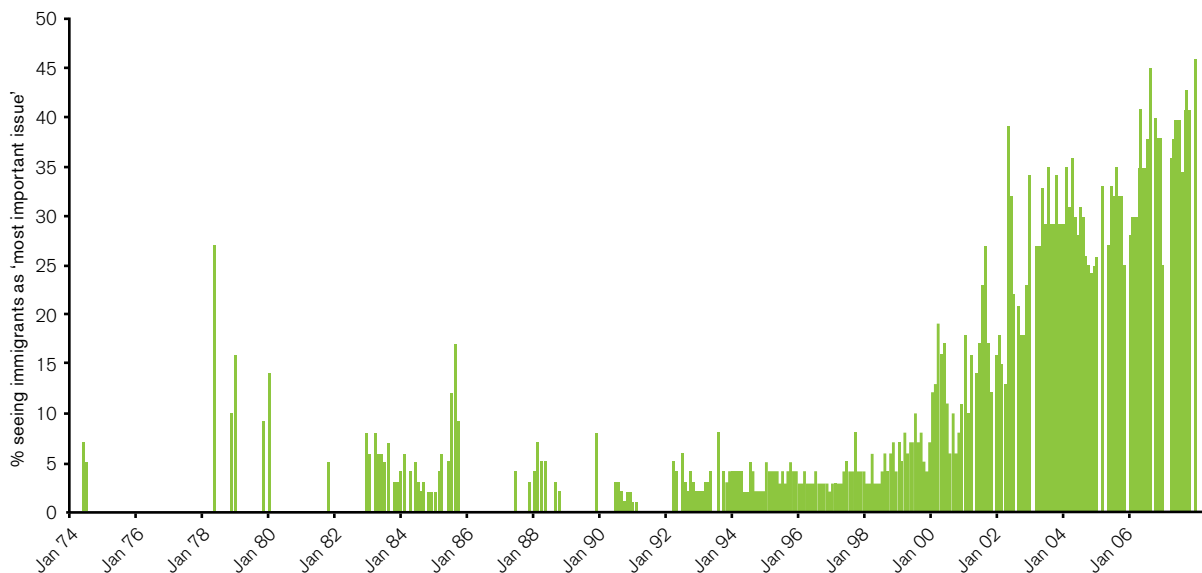
An article in the *Daily Telegraph* (November 30th 2010) published polling results which claimed that 80% of British citizens backed government plans to restrict immigration but, interestingly, more than 50% thought these plans did not go far enough. Indeed, the article reported that many people were very unhappy about the long-term consequences of immigration for the make-up of British society.

¹ This will be discussed in more detail in the next chapter of this report.

The article is illustrative of public sentiment not just in the UK, but in most Western democracies. Ford (2006) reviews the historical opinion poll evidence for Britain and points to the growing strength of public concern about immigration that has emerged since the 1960s. In the British Election Study of 1970, 23% claimed to believe “the government should assist immigrants home” (Studlar, 1978). During the 1970s and 1980s public opinion shifted to more right-wing views on immigration (Crewe, 1988). Since then, conservative views regarding immigration have been strong and persistent.

Figure 1 presents Ipsos MORI² opinion poll data on British attitudes towards immigration, which highlights concerns among the British voting population about immigrants, notably when immigration picks up substantially at the turn of the century. This coincides with two developments which help to explain the increase in hostility towards immigrants. First, globalisation and market integration made its way onto the political agenda in Western democracies, especially as it seemed to have a negative effect on the ability of governments to maintain the welfare state and redistribute income to the poorer sections of society. This development was coupled with EU enlargement to Eastern Europe, which increased the integration of labour markets and spurred fears of large inflows of low-skilled and unskilled workers who would not only take away the scarce supply of jobs, but would also benefit from the reduced availability of welfare provisions (John and Margetts, 2009). Second, highly publicised events of international terrorism, such as the September 11th 2001 attack on the twin towers in New York, further fuelled anxieties of native citizens and turned the spotlight on immigrants’ different cultural, ethnic and religious backgrounds.

Figure 1: Attitudes towards immigration as “the most important issue facing Britain”, 1974-2007



Source: Ipsos MORI (2008), long-term trends, www.mori.com

2 Source: Ipsos MORI (2008), long-term trends: <http://www.mori.com> – percentage of respondents who consider race relations/immigrants/immigration “the most important issue facing Britain today”.

Table 1: What is the most important issue facing Britain today?

Issue	%
Immigration	35.9
Terrorism	14.7
National Health Service	12.2
Law and order	10.1
Education	8.3
Iraq	6.1
The economy	4.1
Taxation and government spending	4.1
None of these	3.7
Jobs	3.5
European Union	3.2
Interest rates	0.9

Source: State of the Nation poll, 2006.

By 2002 the percentage of the population citing immigration as the number one issue had remained constant at more than 25% (Ipsos MORI, 2008). This evidence was supported in 2006 by the State of the Nation poll, where 35.9% of respondents claimed that immigration was the most important issue facing Britain today (Table 1). The poll not only supports the claim that immigration had by now consistently entered public opinion, but that these anti-immigration sentiments were fuelled by fears of terrorist attacks, which emerged as the second most important issue facing the British public.

These anti-immigrant feelings can mostly be explained by theories of social disintegration (Parsons, 1942) and group conflict (Dollard et al., 1939). Feelings of social disintegration are typically caused by social change. From this perspective, globalisation can be viewed as a trigger of social change because it alters how society functions and how societal norms are perceived. Globalisation affected especially unskilled workers and those with low levels of education who no longer felt supported by the community. The social change brought about by globalisation and international integration thus induces intense feelings of anxiety, anger and isolation among affected groups.

Group conflict theories, on the other hand, are based on arguments focusing on scapegoats, which hold that ethnic or other minorities provide convenient targets for the aggression of those members of the society who are frustrated by their lack of status and access to resources. These minorities are perceived to be both different from one's own reference group and powerless, but they are still seen as a threat, notably by taking the jobs of the losers of market integration. Xenophobia can thus often be caused by a conflict between immigrants and lower-class native citizens over scarce resources (low-paid jobs, welfare benefits etc.) and results in discrimination against immigrants and the proliferation of racist stereotypes (see, for example, Esses et al., 1998).

In addition, theories of ethnic competition (Belanger and Pinard, 1991), status politics (Lipset and Bendix, 1951), subtle, modern or symbolic racism (Kinder and Sears, 1981), and social identity (Tajfel et al., 1971) cover different aspects of the root causes of anti-immigrant sentiments since they highlight different facets of group conflicts. More recent research (Pettigrew, 2002) suggests that most, if not all, of these approaches can be subsumed under the concept of relative deprivation. In effect, members of one social group feel that compared with

another social group they are not receiving what they deserve, for example with respect to scarce job opportunities or welfare programmes.

Recent work by Hainmueller and Hiscox (2010) on low-skilled and highly skilled immigration offers a clearer picture of attitudes towards immigration. Previous research had emphasised two critical economic issues that appear to generate anti-immigrant sentiments among native citizens: on the one hand, concerns about labour market competition and job opportunities, and on the other hand concerns about the fiscal burden on public services. Hainmueller and Hiscox provide direct tests of both models of attitude formation using an original survey experiment embedded in a nationwide US survey. The labour market competition argument holds that native citizens will be most opposed to immigrants who have skill levels similar to their own. The authors find instead that both low-skilled and highly skilled natives clearly prefer highly skilled immigrants over low-skilled immigrants, and this preference does not decrease depending on natives' skill levels.

The fiscal burden model shows that rich natives oppose low-skilled immigration more than poor natives, and that this gap is greater in US states with higher fiscal exposure where immigrant access to public services is concerned. However, the empirical findings of Hainmueller and Hiscox (2010) suggest that rich and poor natives are equally opposed to low-skilled immigration in general, and that concerns among poor natives about constraints on welfare benefits as a result of immigration are more relevant than concerns among the rich about increased taxes. Overall, the results seem to refute the argument that economic self-interest alone can explain voter attitudes towards immigration. These findings are consistent with alternative arguments emphasising non-economic concerns associated with ethnocentrism or sociotropic considerations about how the local economy and society as a whole may be affected by immigration.

In general, public concerns about immigration seem to be fuelled by international integration and greater insecurity about future earnings and social standing. However, the above review of the literature indicates that resulting attitudes are much more diverse and granular than the ghost of globalisation and job losses suggests. It is important, therefore, to identify which parts of society are affected by these concerns and how governments can balance fears and anxieties with gains from labour market integration.

4. Immigration and voting for the extreme right

The transmission from individual preferences to government formation and, ultimately, policy outcomes goes through individual voting behaviour because elections determine who will be in power and hence what kind of policies will be implemented. The majority of recent literature focuses on how individual preferences are connected to voter choices and electoral outcomes, especially with respect to voting for extremist, right-wing, Eurosceptic and anti-immigration parties (Hooghe, 2007; Golder, 2003a, 2003b; Arzheimer, 2009; John and Margetts, 2009).

Coinciding with the advent of globalisation since the early 1980s, an unexpected wave of right-wing extremist party activity swept over the European continent. Suddenly, parties labelled "extreme", "radical", "populist" or "new right" proved to be remarkably successful at the polls in countries such as Austria, Belgium, Denmark, France, Italy, Norway, Sweden and Switzerland. Even though they are quite heterogeneous, this new family of parties, dubbed extreme right parties (ERPs), shares a number of ideological features, in particular a concern

about immigration, which became the single most important issue for them in the 1990s (van der Brug and Fennema, 2003; Arzheimer, 2009).

While there was some belief initially (Jackman and Volpert, 1996) that the electoral success of extreme right parties could be dampened by mechanical institutional measures (such as amending the electoral system by, for example, increasing electoral thresholds), it became clear that additional factors, such as immigration, unemployment, EU integration and others, fuelled the success of these extremist parties (Golder, 2003a, 2003b). Interestingly, unemployment or an increase in unemployment only seem to boost voter shares of right-wing parties if immigration levels are comparatively high at the same time (Golder, 2003b).

This finding supports the notion that reducing obstacles to the free movement of labour and individuals across borders as part of the globalisation process, and the resulting fear of immigration in Western democracies, fuels the impression – perhaps irrationally – among unskilled native workers that unemployment is caused by the influx of immigrants. Indeed, when immigration levels are low, a rise in unemployment is often simply associated with the general state of the domestic economy and the ups and downs of the economic business cycle.

The question whether economic hardship is related to voting for extremist parties is convincingly answered by De Bromhead et al. (2012), who analyse the voting behaviour in 28 countries (European, East European, North American and Latin American) during the Great Depression in the inter-war period (1919-39). They confirm empirically the existence of a link between political extremism and economic hard times, as captured by the growth or contraction of the economy. They find that what mattered most for the voter share of extreme right-wing parties is not simply economic growth at the time of the election, but cumulative growth. However, the effect of the Great Depression on support for right-wing and anti-system parties was not equally strong in all economic, political and social circumstances. Right-wing parties won most support in countries with relatively short histories of democracy, with pre-existing extremist parties, and with electoral systems that created low hurdles to parliamentary representation.

The bulk of the extreme right's support in most West European countries comes from those sections of the working class and lower-middle class who are worried about the presence of non-West European immigrants. In general, there exists a much greater propensity to vote for extreme right-wing parties among white men, those with a low level of formal education and those with a rudimentary professional skill level, as well as among manual workers, the lower middle class, and individuals in routine non-manual employment (Arzheimer and Carter, 2006; Arzheimer, 2009). This social profile of the typical voter for extreme right-wing parties is complemented by an equally sharp attitudinal profile: as a number of studies have demonstrated, supporters of extreme right-wing parties are to a large extent motivated by xenophobic feelings and beliefs (see, for example, van der Brug and Fennema, 2003). Using survey data collected in 2003 for 18 West European countries and regions, Ivarsflaten (2005) provides evidence that West Europeans demand restrictive immigration and asylum policies mainly because they are concerned that diversity of religion, language and tradition will have a negative impact on their country.

A look at voting patterns for extreme right-wing parties such as the British National Party (BNP) and the UK Independence Party (UKIP) indicates that there is more latent support for the extreme right than polling results would suggest (John and Margetts, 2009). On the one hand, feelings of social acceptance often

prevent respondents to state their true preferences, while strategic voting in a first-past-the-post electoral system, on the other hand, means that voters often do not express their true preferences with their ballot but vote instead for the parties that are closest to their preferences and have a chance of entering parliament.

Earlier research thus argued that Britain's constitutional and institutional arrangements, as well as its political culture, prevent extreme right-wing parties from gaining support and making electoral headway, even when issues such as immigration and national identity appeared on the political agenda and influenced public opinion as early as the 1960s (Kitschelt and McGann, 1995; Golder, 2003a, 2003b; Mudde, 2007; de Lange, 2007, among others). In this light, even the success of the BNP in the 2000s was not viewed as evidence that the extreme right could gain extensive political representation in Britain, but rather that minor parties can cash in on temporary shifts in public opinion and can gain momentary support from protest voters. The British first-past-the-post electoral system discourages new entrants because it imposes a high cost to obtain seats for the number of votes cast. This penalises small parties such as UKIP or the BNP and prevents them from sustaining or increasing their share of the vote in the long run (Jackman and Volpert, 1996; Norris, 2005; for a different view, see Golder, 2003a, 2003b; Van der Brug et al., 2005).

Nevertheless, this does not prevent politicians of the major parties to take up issues such as immigration and to incorporate them into their own party platforms in a bid to undercut smaller parties. A recent example of this kind of populism was the announcement by the home secretary, Theresa May, that the government would take measures to restrict immigration from eurozone countries should the monetary bloc collapse. In the first instance, her comments were aimed at Greece in an effort to appease public fears of a sudden influx of cheap Greek workers if the country were to leave the eurozone (*Guardian*, May 26th 2012).

In 2011 the prime minister, David Cameron, pledged to cut net immigration by "tens of thousands" by 2015 after a public outcry, when immigration figures for 2010 became public showing that net immigration had hit 242,000 in the year to September 2010, according to the Office for National Statistics. That was a 45% increase from a year earlier and the highest level since June 2005, when net immigration reached 260,000. (*Daily Telegraph*, May 27th 2011).

There is little doubt that parties of the extreme right bank on public fears with respect to immigration, but it is clear that the Conservative Party in Britain is quite adept at integrating these fears into its own agenda. Table 2 breaks down party identification and attitudes towards immigrants and supports the notion that the Conservatives are able to pick up votes from people with anti-immigrant sentiments. The British electoral system makes this easier for the party by encouraging individuals who are concerned about immigration to cast their vote tactically for a major party that addresses their fears so that anti-immigration policies have a better chance of being pushed through.

Notwithstanding the attempts of major parties to respond to public fears regarding immigration, open and latent support for extreme right-wing parties in Britain seems to have consolidated over the last decade (John and Margetts, 2009; Ford and Goodwin, 2010). John and Margetts use British data from the 2000s to argue that there is a large sub-section of the British electorate who might consider voting for an extreme right party. They also point out that the size of this group has probably been underestimated, as survey evidence has tended

Table 2: Party identification and attitudes towards immigration in Britain

Party I most identify with	Immigration is the most important issue	Number of respondents
British National Party	62.5	48
Conservative	46.1	536
Refused	39.0	146
Labour	32.4	581
Liberal Democrats	32.2	245
Don't Know	31.1	482
Plaid Cymru	30.0	10
UK Independence Party	29.2	24
Scottish National Party	26.5	34
Green Party	24.1	87
Respect	21.4	14
Other Party	19.0	21
Total	35.8	2,228

Note: Total does not add up owing to weighting and rounding.

Source: State of the Nation poll, 2006.

to focus on actual, rather than potential voting behaviour. In order to support their claim, they use instead attitudinal data relating to respondents' "liking" or "disliking" political parties and questions regarding their propensity to vote (Van der Brug et al., 2005, 2007).

Ford and Goodwin (2010) back these claims with a more granular analysis of British voters who supported the BNP between 2002 and 2006 (based on data from Ipsos MORI's twice-monthly surveys). They find that support for the BNP is concentrated among older, less educated working-class men living in the declining industrial towns of the Northern and Midlands regions. They also show that extreme right-wing voters in contemporary Britain express exceptionally high levels of anxiety about immigration and disaffection with mainstream political parties. The BNP, in particular, prospers in areas with low levels of education and large Muslim minority populations of Pakistani or African origin. The BNP has succeeded in mobilising a clearly defined support base: middle-aged working-class white men who are anxious about immigration, feel threatened by local Muslim communities and are hostile to the existing political establishment.

These factors all underpin the BNP's emergence in Britain: high immigration levels, growing perceptions of identity conflict and the declining strength of the cultural and institutional framework binding voters to the main parties. As a result, British policymakers and established parties have to face the fact that the BNP is likely to continue to strengthen its position as a persistent feature of the British political landscape in the years to come.

There is little doubt that major parties will have to address these fears and anxieties in order to reverse the momentum of the extremist parties. However, governments need to be careful when bowing to populist demands to clamp down on immigration. Until the economic crisis hit in 2008, the experience of countries such as Ireland suggested that flexible labour markets and the influx of labour reduce unemployment and foster economic growth. Restricting immigration induces economic inefficiencies (Jain et al., 2009), and immigration

is often indispensable for offsetting low birth rates in West European countries. A more important question, therefore, is how to solve the redistributive tensions that immigration creates and how to reduce the anxieties of certain sections of society without exploiting these fears for short-sighted electoral purposes.

5. Preferences for redistribution

The question of whether or not a government should redistribute from richer to poorer segments of society, and how much redistribution is desirable both from an individual and a societal perspective, is probably the most important dividing line between the left and the right of the political spectrum, at least on the economic front. It has thus received a great deal of attention from economists, philosophers and political scientists alike. Redistribution in Western societies is highly path-dependent and is very much determined by how the welfare state was set up in the first place. Actual redistribution and individual expectations with respect to redistribution vary substantially across Western democracies, especially in liberal market economies, continental countries and Scandinavian welfare states. This section does not attempt to explain from where preferences for redistribution originate,³ but rather seeks to examine how the process of internationalisation and market integration in recent decades has shaped and shifted these preferences in developed economies.

In general, personal income, gender, education and social mobility within a society shape expectations about future wealth and therefore individual preferences for redistribution (Alesina and Giuliano, 2009). The question, then, is how globalisation affects these factors. Greater exposure to international markets might increase an individual's perception with respect to risks such as job security while market integration creates winners and losers, but social mobility is another variable that can be affected. In addition, increased migrant flows are prone to affect native citizens' perceptions of risks associated with job security as well as increased cultural heterogeneity. In sum, feelings of economic insecurity are liable to affect preferences for welfare state spending, compensation and thus redistribution (Walter, 2010; Iversen and Soskice, 2001; Rehm, 2009, among others).

The compensation hypothesis (Rodrik, 1997a, 1997b, 1998; Cameron, 1978) implicitly assumes that there is a link between an individual's feeling of economic insecurity and a preference for welfare state expansion and redistribution. Consequently, if economic integration reduces the job security of certain individuals, in theory they should prefer a higher level of social protection and redistribution than before the internationalisation of domestic markets.

Most arguments in favour of welfare state expansion are based on the assertion that social security policies are an insurance against risks that private insurance markets fail to cover (Iversen and Soskice, 2001; Moene and Wallerstein, 2003). Iversen and Soskice find that individuals who believe they would have a hard time finding a new job are more supportive of social security spending. Following this logic, the compensation hypothesis implies that individuals facing globalisation-induced risks turn to the state to provide them with cover against loss of income and similar risks caused by increased economic integration. Therefore, exposure to global competition should determine an individual's social policy

3 This has been thoroughly examined elsewhere; see Alesina and Giuliano (2009) for a review of the literature.

preferences: globalisation losers should favour social protection more vigorously than globalisation winners.

Several empirical studies test the relationship between measures of an individual's risk exposure, such as a person's sector of employment or level of skill specificity and the person's redistributive preferences (Svallfors, 1997; Bean and Papadakis, 1998; Iversen and Soskice, 2001; Cusack et al., 2006; Rehm, 2007). This research generally shows that individuals who are confronted with higher risks are more likely to express a preference for more social protection and to favour higher levels of redistribution. Several authors attempt to explore more specifically the indirect link between globalisation exposure and preferences for redistribution, but these studies produce more mixed results. In empirical comparisons across Western democracies it has been shown that the median preference for redistribution is higher in more open economies (Balcells Ventura, 2006). On an individual level, however, Rehm (2007, 2009) finds no evidence that individuals employed in tradable sectors or in import-substituting industries that have a comparative disadvantage make demands for higher levels of redistribution. Walter (2010) argues theoretically, and shows empirically, that a combination of skill-specificity and sectoral exposure determines an individual's risk arising from increased market integration. In turn, she demonstrates that losers from globalisation indeed display pronounced preferences for higher levels of social security spending and redistribution.

However, it is not entirely obvious why demand for insurance should translate into support for redistribution at the individual level, so long as individuals are concerned about protecting themselves against absolute income loss. Yet, the insurance logic might be relevant for redistribution to the extent that individuals anticipate the effects of relative income mobility. Hence, individuals with good prospects for upward mobility are less inclined to support redistribution than their relative income would lead one to expect (e.g. Picketty, 1995; Benabou and Ok, 2001). By the same logic, one might expect individuals who anticipate downward mobility to be more supportive of redistribution than their relative income would suggest. Indeed, individuals incorporate interests associated with their anticipated future position in income distribution into their present-day utility calculus.

In general, however, there seems to be consistent evidence and consensus that individuals who are negatively affected by market integration and globalisation have stronger preferences for social security spending and redistribution, quite independent of the median preferences in Western democracies that are highly path-dependent and are determined by a wealth of other personal characteristics. Policymakers need to take these insecurities generated by economic exposure into account to avoid social unrest and disillusionment with trade liberalisation and economic integration.

Many authors have argued that preferences for redistribution depend on personal income and that generally the rich are less inclined to support income redistribution because it reduces their personal wealth. However, considerations driven by altruism, compassion and a general disapproval of inequality can make them more favourably disposed towards poorer parts of society (Alesina and Glaeser, 2004; Alesina and Guiliano, 2009; Shayo, 2009; Rueda, 2012, among others). While an aversion to inequality and arguments about altruism suggest that an individual's utility increases as the poor benefit from more redistribution, identity arguments emphasise that this may be dependent on the identity of

the poorer groups of society.⁴ If the rich perceive the poor as different, the pro-redistribution effects of altruism and dislike of inequality decline (Rueda, 2012).

There can be little doubt that racism and anti-immigrant sentiments have posed an obstacle to redistributive politics in the United States (Gilens, 2000; Luttmer, 2001), but Alesina and Glaeser (2004) argue persuasively that the United States is not an exceptional case in this respect. Indeed, ethnic and/or religious fractionalisation is consistently associated with less support for redistribution across countries (Alesina and Glaeser, 2004; Amat and Wibbels, 2009). The key concept in this literature is not fractionalisation *per se*, but rather the concentration of minorities among the poor. In Alesina and Glaeser's words, the main concern is whether "there are significant numbers of minorities among the poor", in which case "the majority population can be roused against transferring money to people who are different from themselves". In this vein, Alesina and Guiliano (2009) claim that homogeneity influences the rich and poor in the same way – the rich are less in favour of redistribution but dependent on homogeneity (more or less), while the poor are always pro-redistribution, but less so if some of the public goods are spent on immigrants.

While the arguments about self-interest imply that support for redistribution will decrease with income, conceptions of altruism and identity suggest that there are "moral" benefits attached to the promotion of equality across groups. Consequently, all individuals (poor and rich alike) obtain moral benefits from supporting redistribution, and when group homogeneity is greater – which means either ethnic fractionalisation is relatively unimportant or the foreign-born and immigrant share of the population remains small – altruism will strengthen preferences for redistribution.

An alternative interpretation holds that ethnic or national identities and cleavages matter more to the preferences of the poor than to the rich. Identity concerns thus divert the poor from the pursuit of material self-interest (Shayo, 2009). In a nutshell, proponents of this view argue that if the group of the poor is fractionalised, native citizens identify with their nation more than with their class, which reduces their preferences for income redistribution.

Finally, Rueda (2012) convincingly argues theoretically, and tests empirically, that immigration affects preferences for redistribution and public good provision differently for the poor and the rich. For the poor, material self-interest dominates, and they always support more redistribution. For the rich, it matters who receives the publicly provided goods – in homogeneous societies with less immigration, the rich are more "altruistic" and support redistribution more enthusiastically than in more heterogeneous societies.

4 On this issue, Freeman (2009) concludes that the "available evidence, though hardly sufficient, seems to support the proposition that increasing ethnic heterogeneity is likely to be associated with less enthusiasm for programs that are redistributive or are targeted at minority groups".

6. Policy conclusions

- Governments in Western democracies face two mutually reinforcing challenges. On the one hand, trade liberalisation and financial integration generate losers who make demands for social insurance and compensation to offset some of the adverse effects of globalisation. On the other hand, labour market integration and the high-profile aspect of international terrorism spur anti-immigration sentiments and concerns about the disintegration of society. This reinforces demands not only for insurance, but also for protection against the influx of cheap labour and immigrants of ethnically and culturally different backgrounds. Politicians need to address these anxieties without exploiting them for electoral gains or forgoing the benefits of economic and financial integration.
- From a purely economic efficiency perspective, most research suggests that market integration of both goods and labour, and to a certain extent of financial markets, benefits economies and enhances overall welfare. Yet, globalisation also generates (re)distributive tensions. As governments are not social planners, these redistributive conflicts, if sufficiently powerful, affect policymaking. How these different forces influence domestic decision-making clearly depends on a country's institutional context (for example, the electoral system) and the characteristics of its welfare state, which undoubtedly shapes the redistributive expectations of voters. Governments, therefore, follow myriad strategies and use different sets of policy tools to balance international pressures and domestic constraints.
- A review of individual preferences with regard to globalisation and redistribution highlights the fact that incumbent politicians need to take into account the fears of globalisation losers, particularly when deciding on welfare state spending, if they want to win future elections. From this perspective, governments need to determine which sections of society win and lose from different kinds of economic integration in order to target redistribution efforts more effectively. Redistribution initiatives and public good provision remain the major policy instruments for governments to gather support for the project of "globalisation" which no policymaker can avoid. The need for social security depends on the size, location and dispersion of the losers within society as well as the long-term societal fairness norms that have been established.
- Governments in Western democracies need to strike a balance when it comes to regulating immigration. They need to address concerns regarding job uncertainty created by economic integration, but they also have to ensure that inordinately high barriers to the inflow of labour do not have a negative effect on future growth prospects and economic performance by preventing highly skilled foreign-born talent from entering the country. In this regard, adopting short-term policies for electoral purposes that seek to cash in on public anxieties will have detrimental economic effects in the longer term. In the British context, where more restrictive immigration regulations have been introduced in response to the economic crisis and international terrorism, rules for non-EU students, for example, have been severely tightened. To the extent that some students would typically stay in the country after their studies and become young high-income tax payers, an unintended consequence of this measure is that the British median voter might lose because these highly skilled immigrants are usually important net contributors to the social welfare and pension system.

- Politicians have to face the reality that factors underpinning the emergence of extreme right-wing parties – such as high levels of immigration, rising perceptions of identity conflict and the declining strength of the cultural and institutional ties binding voters to the main parties – are likely to persist in the coming years. Policymakers and established parties, therefore, have to deal with the fact that right-wing and anti-immigrant parties will continue to be a feature of the political landscape in Europe, especially in proportional electoral systems that support the emergence of smaller parties. As a result, large parties have to address the fears and anxieties of the voting population in a rational and non-populist manner in order to undercut political support for extremist parties. Governments therefore need to be careful when catering to populist requests to clamp down on immigration. Indeed, before the onset of the current financial crisis in Ireland, for example, its flexible labour market and the influx of labour actually served to reduce unemployment and foster economic growth. In general, restricting immigration induces economic inefficiencies and, furthermore, immigration is an indispensable tool for offsetting low birth rates in West European countries. The more important question, therefore, is how to solve the redistributive tensions that arise, and how to reduce the anxieties of certain sections of society without exploiting these fears for short-sighted electoral purposes.

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