

10. The Effects of Mobile Capital

10.1 Economic Policy

- *Economic Policy and Globalization*
 - *Economic policy during Bretton Woods*
 - *Economic policy under mobile capital*
- *Economic Policy and Democratic Politics*
 - *Economic voting under economic globalization*
 - *Partisan responsiveness under economic globalization*

10.2 Fiscal Adjustment

- *Fiscal Adjustment*
 - *Effectiveness of fiscal adjustment*
 - *Consequences of fiscal adjustment*
- *Tax Reforms*

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10.1 Economic Policy

- *Economic Policy and Globalization*
 - *Economic policy during Bretton Woods*
 - *Partisan Counter-cyclical management*
 - *Economic voting and Political Business Cycles*
 - *Economic policy under capital mobility*
 - *Economic policy constraints*
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 - *Economic voting under economic globalization*
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 - *Party differences/Directional differences*
 - *Response to the median voter*

10. The Effects of Mobile Capital

10.2 Fiscal Adjustment

- **Economic Crisis and Reforms**
 - *Pros and cons*
 - ↔ *political impact on leadership survival and vested interests (+/-)*
 - *political impact on the voters' judgment*
- **Fiscal Adjustments**
 - *Why Fiscal Adjustments?*
 - *The Effectiveness of Fiscal Adjustments*
 - *Expenditure cuts and tax increases*
 - *Effect on investment and consumption*
 - *The Consequences of Fiscal Adjustments*
 - *Economic Consequences*
 - *Effect of fiscal balance/effect on growth (non-Keynesian effect)*
 - *Political Consequences*
 - *Difference between mature and new democracies*
 - *Government survival and large*
- **Tax reform**
 - *Tax reform and revenue ceiling*
 - *Lack of "race to the bottom" / Rate cuts and revenue*
 - *Ideas-ideology or necessity*
 - *The impact of Regan tax cuts*

10.1 Economic Policy Partisan Countercyclical Policy

Table 1
Determinants of Public Sector Balances Estimation
Results From Pooled Cross-Section Time-Series Analyses

	Alternative Models		
	1	2	3
Surplus/deficit _{t-1}	.90 (32.07)	.89 (31.46)	.89 (31.89)
Change in transfer program costs _t	-1.11 (-5.72)	-1.09 (-5.67)	-1.07 (-5.61)
Unanticipated economic performance _t	-.30 (-3.84)	-.30 (-3.87)	-.30 (-3.98)
Openness _{t-1}	-.01 (-0.12)	-.02 (-0.20)	-.08 (-0.48)
Unemployment _{t-1}	-.03 (1.00)	.08 (1.48)	.10 (1.53)
Government _{t-1}	.17 (2.13)	.46 (3.16)	
Government _{t-1} × Unemployment _{t-1}		-.07 (-2.59)	
Government _{1,t-1}			.64 (3.61)
Government _{2,t-1}			.38 (2.12)
Government _{3,t-1}			.53 (2.37)
Government _{1,t-1} × Unemployment _{t-1}			-.12 (-2.41)
Government _{2,t-1} × Unemployment _{t-1}			-.07 (-1.81)
Government _{3,t-1} × Unemployment _{t-1}			-.07 (-2.11)
Constant	-.04 (-0.04)	-.49 (-0.49)	-.04 (-0.26)
R ²	.87	.88	.88

Note: n = 434 (31 years × 14 countries) The t statistics are enclosed in parentheses and are based on panel corrected standard errors. The latter were estimated with Beck and Katz's (1995a, 1995b) panel-corrected standard errors (PCSE) source program in combination with RATS (distributed by Estima, Evanston, IL). It was also possible to reproduce these results using the September 1997 update of SHAZAM 8.0 (distributed by SHAZAM, Vancouver, British Columbia).

Table 2
Slope of Public Sector Balance on Unemployment Under Different Types of Government

	Partisan Character of Government				
	Far Right	Moderate Right	Center	Moderate Left	Far Left
Period 1	.10 (1.55)	-.02 (-0.51)	-.14 (-1.92)	-.26 (-2.26)	-.38 (-2.33)
Period 2	.10 (1.55)	.02 (0.45)	-.05 (-.73)	-.12 (-1.23)	-.19 (-1.44)
Period 3	.10 (1.55)	.03 (0.70)	-.04 (-1.04)	-.11 (-1.86)	-.17 (-2.05)

Note: t statistics are in parentheses.

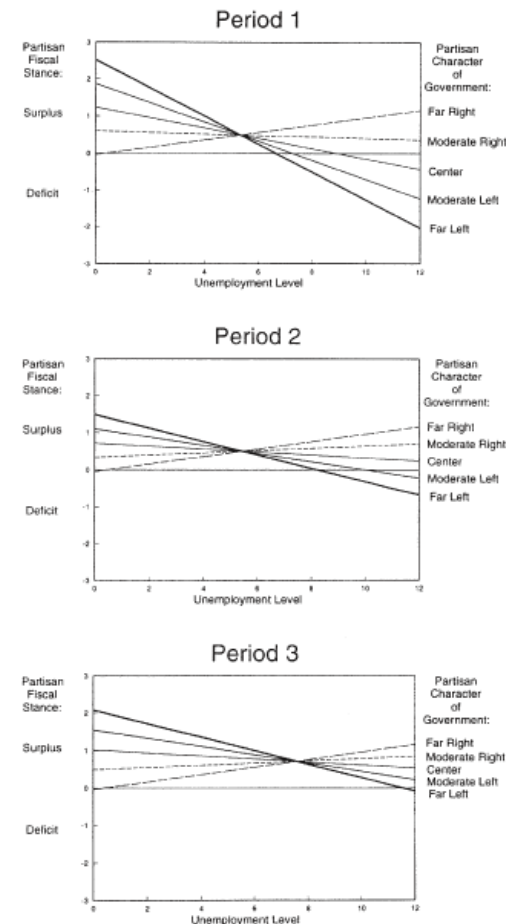


Figure 1. Partisan fiscal stances across three periods.

10.1 Economic Policy Monetary Constraints

Table 1. The Partisan Hypothesis in an Open Economy

	Capital Controls	No Capital Controls
Fixed Exchange Rate	<ul style="list-style-type: none"> Fiscal Policy Is Effective Monetary Policy Autonomy <p>Partisan Hypothesis: Distinct Partisan Fiscal Policies Distinct Partisan Monetary Policies</p>	<ul style="list-style-type: none"> Fiscal Policy Is Effective No Monetary Policy Autonomy <p>Partisan Hypothesis: Distinct Partisan Fiscal Policies No Distinct Partisan Monetary Policies</p>
Floating Exchange Rate	<ul style="list-style-type: none"> Fiscal Policy Is Effective Monetary Policy Autonomy <p>Partisan Hypothesis: Distinct Partisan Monetary Policies Distinct Partisan Fiscal Policies</p>	<ul style="list-style-type: none"> Fiscal Policy Is Ineffective Monetary Policy Autonomy <p>Partisan Hypothesis: Distinct Partisan Monetary Policies No Distinct Partisan Fiscal Policies</p>

Table 2. The Partisan Hypothesis and Fiscal Policy in an Open Economy

	Model 1	Model 2
Lagged Dependent Variable	.79 (.04)***	.79 (.04)***
Party	.10 (.10)	-.62 (.19)***
Party*Fixed Exchange Rate	-.45 (.16)***	
Party*1990	.03 (.15)	
Party*Fixed Exchange Rate*1990	.43 (.14)***	
Party*Fixed Exchange Rate and No Capital Controls		.42 (.21)***
Party*Floating Exchange Rate and Capital Controls		.76 (.22)***
Party*Floating Exchange Rate and No Capital Controls		.28 (.25)
Party*1990		.86 (.23)***
Party*Fixed Exchange Rate and No Capital Controls*1990		-.48 (.21)**
Party*Floating Exchange Rate and Capital Controls*1990		-.84 (.21)**
Party*Floating Exchange Rate and No Capital Controls*1990		-.72 (.21)***
Labor Strength	-.003 (.004)	-.003 (.004)
Inflation	.08 (.03)**	.11 (.03)***
GDP Growth (percent change) 1990s	.26 (.05)***	.28 (.04)***
Fixed Exchange Rate and Capital Controls		-.79 (.68)
Floating Exchange Rate and Capital Controls		-2.44 (.70)***
Floating Exchange Rate and No Capital Controls		-.02 (.79)
Fixed Exchange Rate	1.28 (.48)***	
R-Squared	.88	.89
F	103.29 (P > F .000)	87.77 (P > F .000)
N	323	323

Dependent variable is government budget balance. Method of estimation is OLS fixed effects with robust standard errors.

* significant at .1 ** significant at .05 *** significant at .01

Table 3. The Partisan Hypothesis and Monetary Policy in an Open Economy

	Model 1	Model 2
Lagged Dependent Variable	.31 (.07)***	.29 (.06)***
Party	-.37 (.14)***	-.48 (.19)***
Party*Fixed Exchange Rate	.49 (.12)***	
Party*1990	.48 (.25)**	
Party*Fixed Exchange Rate*1990	.56 (.13)***	
Party*Floating Exchange Rate and No Capital Controls		.52 (.38)
Party*Fixed Exchange Rate and No Capital Controls		1.04 (.30)***
Party*Fixed Exchange Rate and Capital Controls		.55 (.32)*
Party*1990		.39 (.26)***
Party*Floating Exchange Rate and No Capital Controls*1990		-.80 (.38)**
Party*Fixed Exchange Rate and No Capital Controls*1990		-.83 (.30)***
Party*Fixed Exchange Rate and Capital Controls*1990		-.30 (.27)
Inflation	-.61 (.10)***	-.56 (.06)***
Budget Balance 1990s	.06 (.06)	.02 (.05)
Fixed Exchange Rate and Capital Controls		-.91 (.90)
Fixed Exchange Rate and No Capital Controls		2.45 (.92)***
Floating Exchange Rate and No Capital Controls		1.68 (1.09)
Fixed Exchange Rate	1.51 (.50)***	
R-Squared	.75	.76
F	34.14 (P > F .000)	34.49 (P > F .000)
N	323	323

Dependent variable is the real money market interest rate. Method of estimation is OLS fixed effects with robust standard errors.

* significant at .1 ** significant at .05 *** significant at .01

10.1 Economic Policy Partisanship and Central Bank Independence

CENTRAL BANK	GOVERNMENT	
	Left-leaning	Right-leaning
Dependent	high inflation; low unemployment.	low inflation; high unemployment.
Independent	low inflation; high unemployment.	very low inflation; low unemployment.

Figure 1. The mutually contingent effects of government partisanship conditional and central bank independence.

CENTRAL BANK	GOVERNMENT	
	Left-leaning	Right-leaning
Dependent	average inflation: 7.72	average inflation: 6.03
	average change in unemployment: 0.14	average change in unemployment: 0.20
Independent	average inflation: 5.64	average inflation: 4.53
	average change in unemployment: 0.18	average change in unemployment: 0.07

Figure 2. The mutually contingent effects of government partisanship conditional and central bank independence, 1961-1991.

Note: Inflation is change in the consumer price index. Change in unemployment is the first difference in unemployment rates. Governments are classified as left-leaning if the score on the partisanship variable was less than the mean value; those scoring higher than the mean are classified as right-leaning. Similarly, central banks scoring lower than the mean independence rating are categorized as dependent, while those above the mean are placed in the independent cells.

Hypothesis 1: The less (more) independent the central bank from political control, the stronger (weaker) the partisan effects on inflation.

Hypothesis 2: The more Left (Right) party participation in government, the greater (weaker) are the effects of central bank independence on inflation.

Hypothesis 3: The more Left (Right) participation in government, the more detrimental (beneficial) for unemployment are the effects of greater central bank independence.

Hypothesis 4: The less (more) independent the central bank from political control, the more beneficial for unemployment is increased Left (Right) participation in government.

Table 1
Pooled Time-Series Estimates of Inflation and Unemployment Models

Variable	Inflation (change in consumer price index)	Unemployment (first difference)
Intercept	3.03 (1.06) ^{.01}	0.40 (0.21) ^{.03}
Lagged dependent variable	0.58 (0.05) ^{.00}	—
OECD average ^a	0.57 (0.07) ^{.00}	0.58 (0.08) ^{.00}
European Monetary System ^b	-0.84 (0.26) ^{.01}	-0.05 (0.10) ^{.20}
Gross domestic product growth	0.05 (0.05) ^{.17}	-0.13 (0.02) ^{.00}
Openness ^c	-0.09 (0.07) ^{.10}	-0.03 (0.02) ^{.10}
Degree of coordinated wage bargaining ^d	-0.72 (0.35) ^{.02}	-0.03 (0.02) ^{.10}
Cabinet partisanship ^e	-0.90 (0.27) ^{.01}	0.13 (0.06) ^{.02}
Central bank independence ^f	-5.43 (2.01) ^{.01}	0.74 (0.48) ^{.06}
Interaction term (cabinet partisanship * central bank independence)	1.14 (0.65) ^{.04}	-0.37 (0.17) ^{.01}
Number of observations	480	493
Adjusted R ²	0.72	0.41

Note: All entries are ordinary least squares coefficients with panel-corrected standard errors in parentheses. Approximate *p* value from one-sided *t* test is in superscripted italics.

a. Annual Organization for Economic Cooperation and Development average of the dependent variable.

b. Dummy variable for membership in the narrow band of the European Monetary System.

c. Exports as a share of gross national product.

d. See Franzese (1994) and Franzese and Hall (1998).

e. Cabinet ideological center of gravity scores (see Cusack, 1997; Cusack & Garrett, 1993; Gross & Sigelman, 1984). Higher scores indicate more Right-leaning government.

f. Cukierman's (1992) index of central bank independence.

10.1 Economic Policy Political Business Cycles

HYPOTHESIS 1. When capital is immobile and the central bank is dependent, the government initiates a fiscal expansion during electoral periods, and the central bank maintains its nonelection period policies. Fiscal, but not monetary, expansions are expected during electoral periods.

HYPOTHESIS 2. When capital is immobile and the central bank is independent, the government initiates a fiscal expansion during electoral periods, and the central bank responds with a monetary contraction. Fiscal expansions and monetary contractions are expected in electoral periods.

HYPOTHESIS 3. When capital is mobile and the exchange rate is fixed, the government initiates a fiscal expansion during electoral periods, but the central bank maintains its nonelection period policies (whether or not it is independent). Fiscal, but not monetary, expansions are expected during electoral periods.

HYPOTHESIS 4. When capital is mobile and the exchange rate is allowed to fluctuate, the government maintains its nonelection period policies throughout the electoral period. If it is independent, then the central bank also maintains its nonelection period policies; if it is dependent, the central bank initiates a monetary expansion during electoral periods. Fiscal expansions during electoral periods are not expected. Monetary expansions are expected during electoral periods only if the central bank is dependent.

HYPOTHESIS 5. Our expectations about the effect of partisanship are as follows.

- When capital is immobile and the central bank is dependent, leftist governments will create fiscal but not monetary expansions.
- When capital is immobile and the central bank is independent, leftist governments will create fiscal expansions and monetary contractions.
- When capital is mobile and the exchange rate is fixed, leftist governments will create fiscal but not monetary expansions, regardless of central bank independence.
- When capital is mobile and the exchange rate is flexible, leftist governments will create monetary but not fiscal expansions, unless the central bank is independent.

TABLE 2. Electorally Induced Cycles in Macroeconomic Policy under Various Structural Conditions

	No Central Bank Independence	Central Bank Independence
Capital mobility and fixed exchange rates	Fiscal cycles, no monetary cycles	Fiscal cycles, no monetary cycles
Capital mobility and flexible exchange rates	Monetary cycles, no fiscal cycles	No fiscal or monetary cycles

TABLE 5. The Conditional Effects of Elections on Changes in Gross Debt in the 1980s and Early 1990s

	DeHaan and Sturm Data ^a			Hallerberg and von Hagen Data ^b		
	1982-92 A ^c	1982-92 B ^d	1982-92 C ^d	1981-92 D ^e	1981-92 E ^e	1981-92 F ^e
Variables of Interest						
Election	0.49 (0.60)	1.52* (0.75)	1.71* (0.76)	1.25 (0.90)	2.97** (1.13)	2.81** (1.04)
Flexible	-0.20 (0.50)	0.14 (0.64)		0.90 (0.96)	0.78 (1.11)	
Election × Flexible	-0.26 (1.18)	-1.42 (1.29)		-1.44 (1.60)	-1.12 (2.56)	
No fiscal policy autonomy			0.11 (0.59)			-0.09 (1.10)
Election × No fiscal policy autonomy			-1.99 (1.32)			-0.75 (2.67)
Conditional Coefficients						
Election (Flexible = 0)	0.49 (0.60)	1.52* (0.75)		1.25 (0.90)	2.97** (1.13)	
Election (Flexible = 1)	0.22 (0.85)	0.10 (0.98)		-0.20 (1.88)	1.84 (2.73)	
Control Variables						
Intercept	0.67 (0.59)	0.35 (0.63)	0.42 (0.56)	1.97 (1.01)	1.45 (1.14)	1.99 (1.23)
d Debt _{t-1}	0.47** (0.10)	0.48** (0.10)	0.47** (0.10)	0.56** (0.10)	0.59** (0.10)	0.59** (0.10)
d Unemployment	1.27** (0.22)	1.27** (0.22)	1.26** (0.22)	0.04 (0.05)	0.04 (0.05)	0.04 (0.05)
d GDP				-0.88** (0.13)	-0.85** (0.14)	-0.84** (0.13)
d Debt costs	0.38* (0.15)	0.39** (0.14)	0.39** (0.13)	0.18 (0.23)	0.19 (0.23)	0.19 (0.23)
Government type	-0.17 (0.24)	-0.16 (0.25)	-0.21 (0.23)			
2-3 party govt.				0.93 (0.79)	0.90 (0.85)	0.74 (0.90)
4-5 party govt.				0.96 (0.82)	0.91 (0.83)	0.51 (0.91)
Minority govt.				0.36 (1.04)	0.10 (1.08)	0.18 (1.18)
Strong finance minister				-1.55* (0.92)	-0.90 (1.04)	-0.75 (1.01)
Negotiated targets				0.60 (0.79)	0.47 (0.83)	0.18 (0.85)
Strong finance minister × Election				1.29 (1.61)	-0.57 (2.65)	-0.74 (2.51)
Negotiated targets × Election				-1.11 (1.33)	-2.51 (1.59)	-2.33 (1.64)
Left				0.06 (0.87)	0.08 (0.75)	-0.09 (0.75)
N	206	206	206	175	175	175

Note: The dependent variable is the change in the ratio of gross debt to GDP. Panel-corrected standard errors are represented in parentheses. Following the original procedure, we do not include country dummy variables, although their inclusion does not affect the qualitative results. Note that the political variables selection, the three variables for the type of government, strong finance ministers, and negotiated targets are evaluated according to a one-tailed test: *p < .05; **p < .01.
^a19 OECD countries.
^b15 European Union members.
^cStandard coding.
^dFrench coding.
^eParsons coding.

TABLE 3. The Conditional Effects of Elections on the Money Supply since the Bretton Woods Era

	$m = (m_t - m_{t-1})/m_{t-1}$		$m = \text{Log}(M1 + \text{Quasimoney})$	
	Qualitative Modifiers (16 countries) A	Continuous Modifiers (16 countries) B	Qualitative Modifiers (18 countries) C	Continuous Modifiers (18 countries) D
Intercept	2.322** (0.488)	1.646* (0.679)	0.0683** (0.0083)	0.0293* (0.0116)
Election	1.070* (0.499)	1.296* (0.716)	0.0042* (0.0019)	0.0078* (0.0037)
CBI*	1.498* (0.777)	4.323* (2.019)	0.0056 (0.0059)	0.0319 (0.0263)
Fixed	-1.650 (1.056)	-1.553 (1.111)	-0.0082* (0.0033)	0.0030 (0.0046)
Election × CBI	-1.189* (0.665)	-2.436 (1.770)	-0.0010 (0.0030)	-0.0109 (0.0105)
Election × Fixed	-0.211 (0.841)	-0.946 (1.316)	-0.0027 (0.0039)	-0.0148* (0.0074)
CBI × Fixed	-0.419 (1.341)	-4.756 (5.566)	0.0229** (0.0047)	-0.0832* (0.0313)
Election × CBI × Fixed	1.195 (0.999)	4.297 (3.447)	0.0025 (0.0059)	0.0051* (0.0207)
M _{t-1}	0.73** (0.027)	0.796** (0.028)	0.9934** (0.0013)	0.9978** (0.0013)
Lagged change in unemployment			-0.0001 (0.0001)	-0.0001 (0.0001)
Lagged inflation			-0.0848 (0.0500)	-0.0022 (0.0487)
N	928	927	1,148	1,147

Note: Numbers are coefficients and panel-corrected standard errors using pair-wise deletion to estimate covariances. Columns B and D use the Cukierski, Webb, and Neupert (1992) measure of legal independence and a continuous measure of eroding monetary policy autonomy (see note 20). Columns A and C use a categorical variable that equals 1 if the country's score is above the sample median, 0 otherwise, and a categorical measure of eroding monetary policy that equals 1 if the exchange rate is fixed, 0 otherwise. *p < .05; **p < .01; one-tailed test used for coefficients involving "CBI" - central bank independence.

TABLE 7. The Conditional Effects of Partisanship on the Money Supply since the Bretton Woods Era

	$m = (m_t - m_{t-1})/m_{t-1}$		$m = \text{Log}(M1 + \text{Quasimoney})$	
	Qualitative Modifiers (16 countries) A	Continuous Modifiers (16 countries) B	Qualitative Modifiers (18 countries) C	Continuous Modifiers (18 countries) D
Partisanship	0.221 (0.224)	0.416 (0.316)	-0.00190** (0.00097)	-0.00352** (0.00137)
CBI	1.338 (1.209)	4.986 (2.843)	0.00761 (0.00420)	0.02748* (0.01359)
NoMpa	-1.235 (1.111)	-0.518 (1.446)	-0.01502** (0.00383)	-0.01024 (0.00538)
Partisanship × CBI	-0.035 (0.285)	-0.603 (0.709)	0.00382** (0.00095)	0.00863** (0.00356)
Partisanship × NoMpa	-0.212 (0.276)	-0.662 (0.589)	0.00072 (0.00104)	0.00363 (0.00258)
CBI × NoMpa	0.359 (1.565)	-4.641 (6.138)	-0.00707 (0.00664)	-0.11476** (0.03148)
Partisanship × CBI × NoMpa	-0.064 (0.517)	1.097 (1.825)	-0.00276 (0.00224)	-0.01372* (0.00791)
Lagged money supply	0.796** (0.028)	0.794** (0.028)	0.99860** (0.00090)	0.99905** (0.00091)
Lagged unemployment			-0.00005 (0.00008)	-0.00005 (0.00008)
Lagged inflation			0.02346 (0.05369)	-0.00331 (0.05092)
Constant	1.914* (0.895)	0.864 (0.984)	0.05089** (0.00841)	0.04443** (0.00887)
Observations	916	915	1,136	1,135

*p < .05; **p < .01.

10.1 Economic Policy

Monetary policy and government survival

TABLE 1. Macroeconomic Tools Available to Leaders under Alternative Monetary Institutions

		<i>Dependent Central Bank</i>	<i>Independent Central Bank</i>
No capital mobility		(a) <i>Monetary and fiscal policy</i>	(b) <i>Fiscal policy</i>
Capital mobility	Fixed exchange rate	(c) <i>Fiscal policy</i>	(d) <i>Fiscal policy</i>
	Flexible exchange	(e) <i>Monetary policy</i>	(f) <i>No instruments</i>

Hypothesis 1: When capital is mobile and the central bank is independent, incumbents with fixed exchange rates should survive longer in office (have lower hazard rates) than those with flexible exchange rates.

Hypothesis 2: When capital is mobile and exchange rates are flexible, incumbents with dependent central banks should survive longer in office (have lower hazard rates) than those with independent central banks.

Hypothesis 3: Increased economic growth reduces the leader's risk of being removed from office (reduces the hazard rate).

TABLE 3. The Effect of Monetary Institutions on Survival Time in the post-Bretton Woods Era (1971–1999)

<i>Independent Variables</i>	<i>(1) Main Model</i>	<i>(2) Main Model Controlling for Premier-Timed Elections</i>	<i>(3) Main Model Controlling for Number of Districts</i>	<i>(4) Main Model Controlling for Single-party Majority Governments</i>	<i>(5) Main Model w/All Controls</i>
Dependent variable: tenure of leader (in years)					
Fixed exchange rate	2.90 (0.84)***	2.64 (0.84)***	2.99 (0.85)***	2.86 (0.84)***	2.48 (0.86)***
Dependent central bank	3.39 (0.83)***	3.19 (0.83)***	3.38 (0.83)***	3.40 (0.83)***	3.17 (0.83)***
Fixed exchange rate × dependent central bank	-2.56 (0.91)***	-1.78 (0.93)*	-2.59 (0.91)***	-2.58 (0.91)***	-1.74 (0.94)*
Fixed exchange rate × tenure	-0.57 (0.13)***	-0.51 (0.13)***	-0.57 (0.13)***	-0.57 (0.13)***	-0.52 (0.13)***
Dependent central bank × tenure	-0.59 (0.14)***	-0.58 (0.14)***	-0.59 (0.14)***	-0.60 (0.14)***	-0.59 (0.14)***
Fixed exchange rate × dependent central bank × tenure	0.48 (0.16)***	0.46 (0.16)***	0.48 (0.16)***	0.48 (0.16)***	0.48 (0.16)***
Premier-timed elections		0.94 (0.28)***			1.07 (0.29)***
Ln (number of electoral districts)			-0.05 (0.07)		0.4 (0.07)
Single-party majority governments				-0.11 (0.25)	-0.45 (0.26)*
Log likelihood	-450.6	-444.5	-450.3	-450.5	-442.9
Observations	654	654	654	654	654

(Notes. Cox proportional hazards estimates; standard errors in parentheses. The Efron method is employed for handling ties. Data are based on 149 leaders from 19 OECD countries between 1972 and 1999.

* $p < .10$; ** $p < .05$; *** $p < .01$ (two-tailed).)

10.1 Economic Policy Incumbent Vote

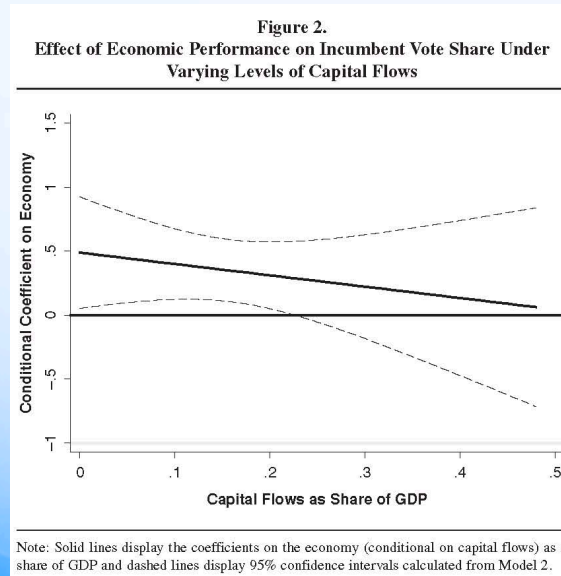
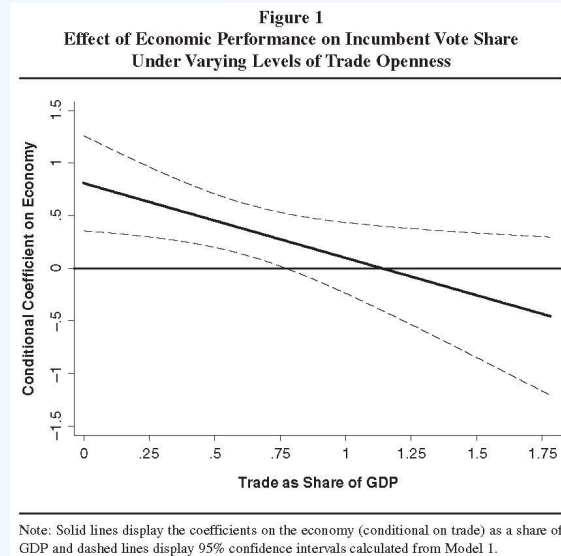


Table 1
Electoral Accountability and Economic Globalization Dependent
Variable: Incumbent Vote

Independent Variable	Model 1		Model 2	
	Coefficient	SE	Coefficient	SE
Previous vote	.478**	.079	.495**	.081
Economy	.811**	.231	.489*	.223
Trade openness	2.583	1.558		
Capital flows			2.238	5.333
Economy × Trade Openness	-.710*	.313		
Economy × Capital Flows			-.887	1.172
Presidential election	-1.430	1.374	-1.211	1.344
Economy × Presidential Election	.261	.313	.268	.286
Re-election	6.151**	1.927	5.149**	1.799
Effective number of parties	-2.959**	.483	-2.952**	.502
Income	.172**	.043	.177**	.051
Africa	3.372	3.151	7.310*	2.755
Asia	2.679*	1.190	2.143	1.246
Central and Eastern Europe	-3.579	1.935	-3.514	2.115
Latin America and the Caribbean	2.957*	1.466	2.774	1.497
Constant	20.283**	4.501	20.881**	4.534
Joint <i>F</i> test ^a		4.76**		4.88**
<i>R</i> ²		.633		.643
<i>F</i> statistic of model fit		53.42**		47.97**
<i>N</i>		424		413

Note: Cells report OLS parameter estimates and robust standard errors clustered within countries.

a. Tests joint significance of the components and interaction term for *economy* and measure of globalization.

**p < .01. *p < .05. (two-tailed test)

10.1 Economic Policy Globalization and responsiveness

H1. Mean Voter Hypothesis: Changes in the policy position of the mean voter in the electo-€i0rate cause corresponding shifts in parties' policy positions. €i0
H2. Globalization Hypothesis: The responsiveness of political parties to the preferences of mean voter is weaker in national economies more exposed to world markets. €i0

Table 2. Multivariate Analyses of Parties' Left-Right Policy Shifts in 18 Democracies, 1976-2003
CMP/Eurobarometer Data

	All Parties Glob. Index (1)	All Parties Glob. Index (2)	Main Parties ^a Glob. Index (3)	Main Parties Glob. Index (4)	Main Parties Flows (5)	Main Parties Restrictions (6)	Main Parties Glob. Index (7)
PUBLIC OPINION SHIFT _{it}	-0.03 (0.25)	1.71 (1.27)	5.22** (1.85)	4.27** (1.74)	2.20** (0.97)	9.43** (2.77)	3.83** (1.67)
GLOBALIZATION _{it}		-0.42 (0.52)	-0.12 (0.94)	-0.09 (0.93)	-0.35 (0.61)	-0.46 (1.19)	-0.29 (0.95)
PUBLIC OPINION SHIFT _{it} x GLOBALIZATION _{it}		-2.49 (1.87)	-6.99** (2.71)	-5.33** (2.46)	-2.95* (1.59)	-11.10** (3.50)	-4.47** (2.38)
PARTY SHIFT _{it,t-1}				-0.41** (0.09)	-0.41** (0.09)	-0.39** (0.08)	-0.41** (0.08)
ΔGROWTH _{it}							0.03* (0.02)
ΔUNEMPLOYMENT _{it}							0.07** (0.03)
Constant	-0.11** (0.03)	0.21 (0.48)	0.08 (0.82)	-1.04 (0.87)	-0.77 (0.54)	-0.79 (1.17)	-1.25 (0.87)
N	521	521	202	178	178	178	178
R ²	.05	.06	.09	.23	.23	.25	.27

Notes. Dependent variable is PARTY SHIFT_{it}. Robust standard errors clustered by election are in parentheses. *p < .10, **p < .05, two-tailed test (unconditional estimates). The estimates of public opinion and party position have been recalibrated to a 0-10 scale, similar to the CSES-based analyses. The models are estimated with country-specific intercepts.
a. "Main parties" refer to those parties in the dataset which have experience as the largest partner in a governing coalition or have governed with a single party majority or minority.

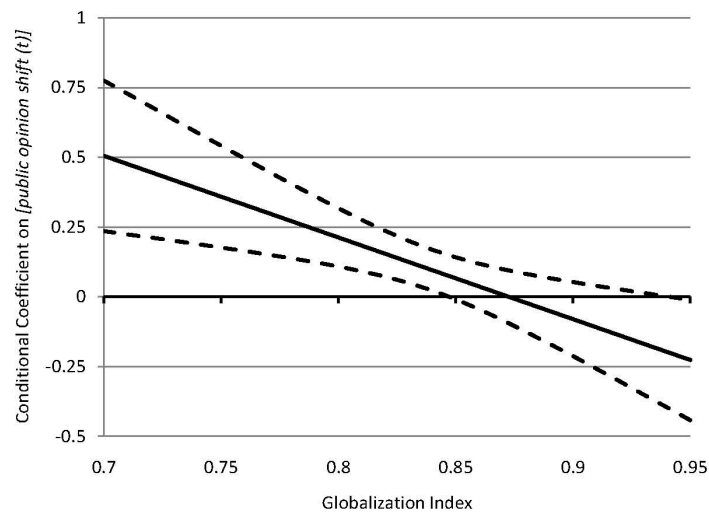
Table 1. Multivariate Analyses of Parties' Left-Right Policy Shifts in 13 Democracies, 1999-2007
CSES-Based Data

	Baseline (1)	Glob. Index (2)	Flows (3)	Restrictions (4)	Glob. Index (5)
PUBLIC OPINION SHIFT _{it}	0.13** (0.06)	2.55** (1.21)	1.64** (0.51)	1.38** (0.16)	4.43** (0.88)
GLOBALIZATION _{it}		1.21 (0.89)	0.30 (0.75)	1.55** (0.59)	3.40** (0.63)
PUBLIC OPINION SHIFT _{it} x GLOBALIZATION _{it}		-2.93** (1.13)	-1.92** (0.67)	-1.61** (0.69)	-5.48** (1.08)
ΔGROWTH _{it}					0.059** (0.011)
ΔUNEMPLOYMENT _{it}					-0.014** (0.006)
Constant	-0.04** (0.01)	-1.06 (0.76)	-0.28 (0.61)	-1.80** (0.53)	-3.12** (0.50)
N	115	115	115	115	115
R ²	.05	.06	.05	.07	.07

Notes. Dependent variable is PARTY SHIFT_{it}. Robust standard errors clustered by election are in parentheses. All models estimated with country-specific intercepts. *p < .10, **p < .05, two-tailed test, unconditional coefficients.

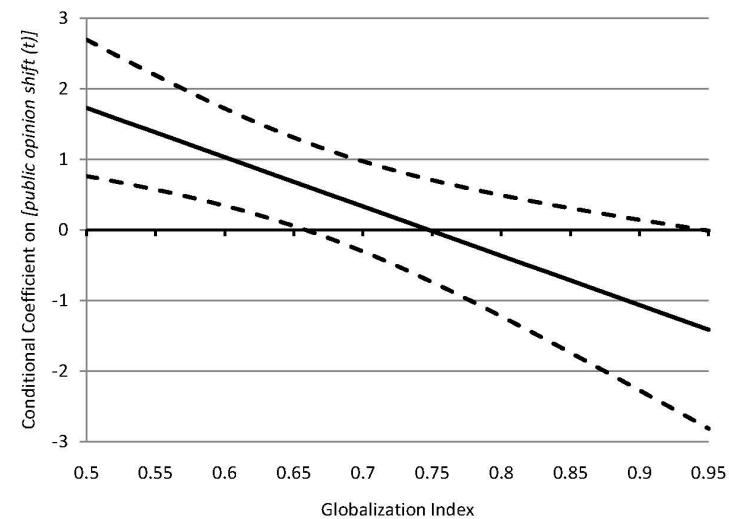
10.1 Economic Policy Globalization and responsiveness

Figure 2. Effect of Public Opinion Shift on Party Shift Conditional on Economic Globalization, CSES-Based Sample



Notes: Figure charts the estimated coefficient on public opinion shift on party position shifts over values of the economic globalization index, as provided by Table 1 Model 2 estimates. The globalization index is rescaled from 0-100 to 0-1. Dashed lines report 90% confidence intervals.

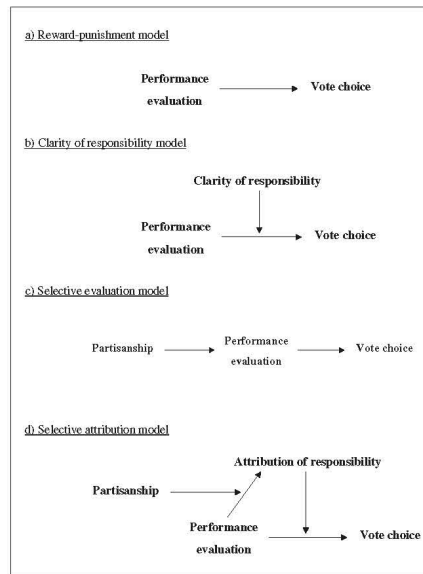
Figure 3. Effect of Public Opinion Shift on Party Shift Conditional on Economic Globalization, CMP/Eurobarometer Sample



Notes: Figure charts the estimated coefficient on public opinion shift on party position shifts over values of the economic globalization index, as provided by Table 2 Model 3 estimates. The globalization index is rescaled from 0-100 to 0-1. Dashed lines report 90% confidence intervals.

10.1 Economic Policy Partisan accountability

FIGURE 1 Models of Electoral Accountability



H1. Giving people information on the extent of responsibility of government for a policy area will affect how they think it has changed, dependent on their partisanship. Specifically:

- a. Government partisans will think changes are more positive when government is thought responsible, compared to when government is not thought responsible.
- b. Opposition partisans will think changes are more negative when government is thought responsible, compared to when government is not thought responsible.

H2. Giving people information on negative or positive changes to a policy area will affect who they think is responsible for that area, dependent on their partisanship. Specifically:

- a. Government partisans will attribute less responsibility to the government when confronted with negative changes compared to positive changes.
- b. Opposition partisans will attribute more responsibility to the government when confronted with negative changes compared to positive changes.

H3. Political sophisticates will be more likely to respond to new evidence about performance and responsibility through processes of selective evaluation and selective attribution than people with less political sophistication. Specifically:

- a. When presented with new information on responsibility, sophisticated partisans are more likely to change their evaluation of performance compared to less sophisticated partisans.
- b. When presented with new information on performance, sophisticated partisans are more likely

to change their attribution of responsibility compared to less sophisticated partisans.

FIGURE 2 Selective Sanctioning: An Experimental Test

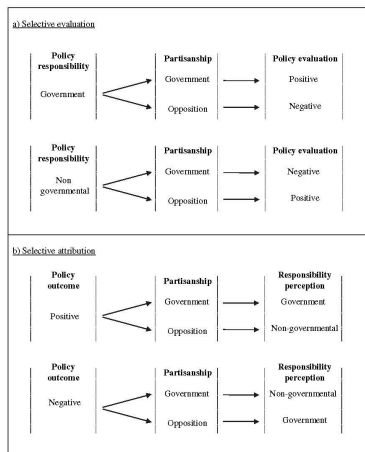
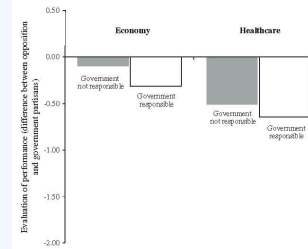
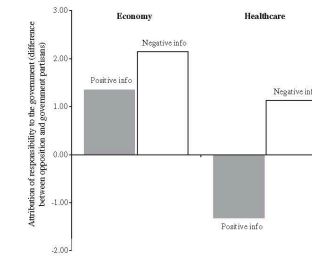


FIGURE 3 Selective Evaluation Effects for the Economy and Healthcare



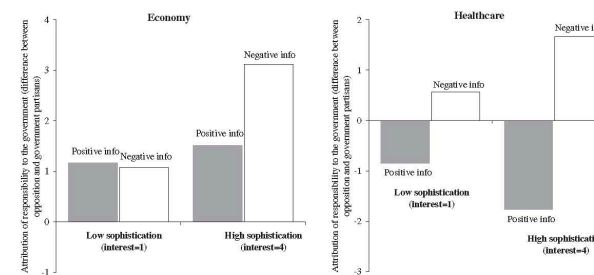
Note: Figures estimated from Table 3. Size of the bars is the difference between opposition and government partisans' evaluation (1-5 scale) of the economy/ healthcare (positive numbers indicate the evaluations of opposition partisans are better than the evaluations of government partisans). The dark bars represent a treatment of information suggesting that the government is not responsible for the economy/ healthcare, the light bars represent a treatment of information suggesting that the government is responsible for the economy/ healthcare.

FIGURE 4 Selective Attribution Effects for the Economy and Healthcare



Note: Figures estimated from Table 4. Size of the bars is the difference between opposition and government partisans' attribution of responsibility to the government (0-10 scale) for the economy/ healthcare (positive numbers indicate opposition partisans attribute more responsibility to the government than government partisans). The dark bars represent a treatment of information suggesting that the government is not responsible for the economy/ healthcare, the light bars represent a treatment of positive information about the performance of the economy/ healthcare, the light bars represent a treatment of negative information about the performance of the economy/ healthcare.

FIGURE 5 Selective Attribution Effects for the Economy and Healthcare by Political Interest



Note: The size of the bars is the difference between opposition and government partisans' attribution of responsibility (0-10 scale) to the government for the economy/ healthcare (positive numbers indicate opposition partisans attribute more responsibility to the government than government partisans). The dark bars represent a treatment of information suggesting that the government is not responsible for the economy/ healthcare, the light bars represent a treatment of positive information about the performance of the economy/ healthcare, the light bars represent a treatment of negative information about the performance of the economy/ healthcare.

10.1 Economic Policy

Globalization and Competency vote

FIGURE 1 Hypothetical Competency Signals from Domestic and International Economies

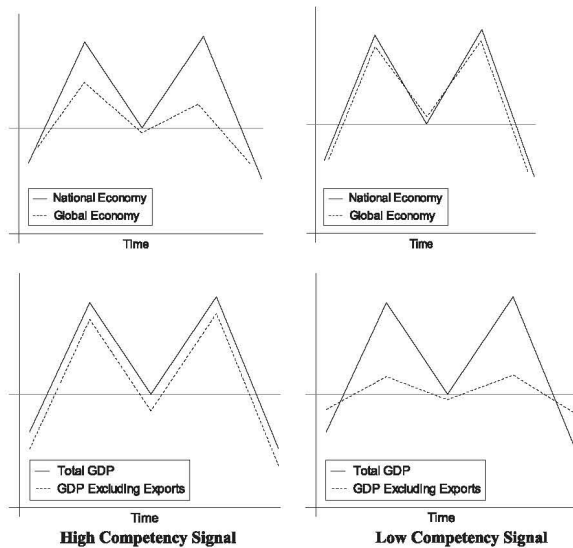


FIGURE 5 Economic Vote and Fluctuations in Macro-economic Shocks

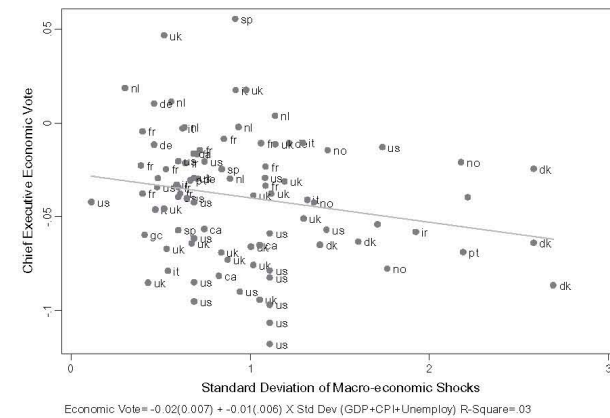
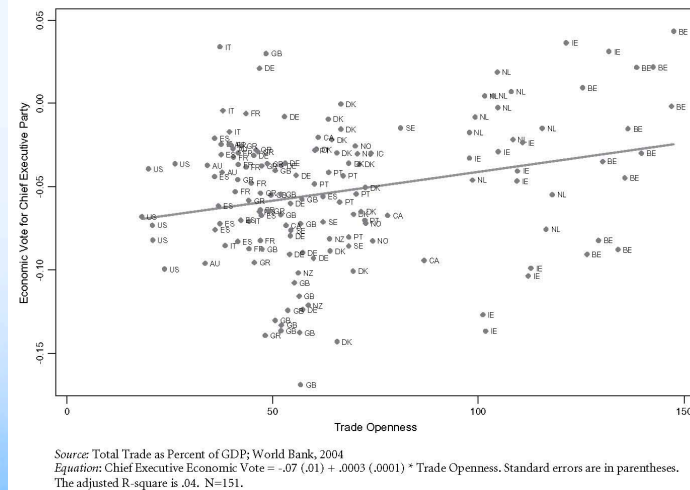


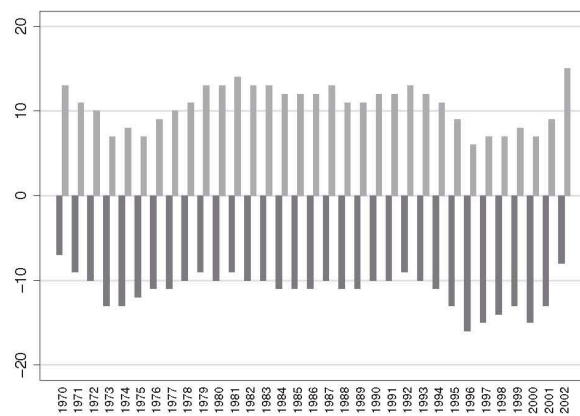
FIGURE 6 Trade Openness and Economic Vote



10.1 Economic Policy

International political waves

FIGURE 1 Frequency of Right and Left Governments in the OECD-23



Note: The frequency of left governments is recorded above zero on the y-axis; right governments are recorded below zero.

TABLE 1 Partisan Waves

Variable	Coefficient	(Std. Err.)
$LuxVote_{t-1}$	-0.317	(0.048)
$\Delta NeighborsVote$	0.112	(0.055)
$NeighborsVote_{t-1}$	0.101	(0.041)
Constant	9.275	(2.708)

N = 340; Country fixed effects $\rho = .408$; robust standard errors.

TABLE 2 An Economic Source?

	Unemployment			Decomposed Unemployment		
	All (1)	HiClar (2)	Time (3)	All (4)	HiClar (5)	Time (6)
$LuxVote_{t-1}$	-.344 (.054)***	-.312 (.071)***	-.312 (.050)***	-.363 (.053)***	-.349 (.068)***	-.353 (.048)***
$\Delta NeighborsVote$	.089 (.057)	.014 (.071)	-.050 (.066)	.079 (.060)	-.001 (.071)	-.076 (.070)
$NeighborsVote_{t-1}$	.117 (.051)**	.154 (.083)*	.083 (.056)	.120 (.053)**	.170 (.084)**	.062 (.057)
$\Delta Unemployment$	-1.100 (.641)*	-2.117 (.979)**	-1.037 (.677)			
$Unemployment_{t-1}$	-.123 (.187)	-.287 (.311)	-.244 (.236)			
$\Delta IntlUnem$				-2.183 (.819)***	-3.479 (.940)***	-3.271 (.989)***
$IntlUnem_{t-1}$				-.113 (.181)	-.303 (.261)	-.700 (.388)*
$\Delta DomesticUnem$				-.498 (.317)	-1.527 (.657)**	-1.028 (.383)***
$DomesticUnem_{t-1}$				-.078 (.223)	-.028 (.425)	-.262 (.268)
$\Delta Inflation$	.604 (.336)*	.835 (.444)*	.494 (.401)	.606 (.329)*	.846 (.427)**	.439 (.375)
$Inflation_{t-1}$	-.113 (.177)	-.231 (.369)	.087 (.275)	-.095 (.174)	-.155 (.338)	.078 (.282)
$\Delta Growth$	-.159 (.246)	-.394 (.417)	-.0003 (.265)	-.169 (.263)	-.335 (.422)	.061 (.275)
$Growth_{t-1}$	-.238 (.330)	-.949 (.562)*	-.179 (.398)	-.275 (.334)	-.975 (.519)*	-.047 (.373)
$Employment / Pop_{t-1}$	-.296 (.148)**	.225 (.388)	-.416 (.221)*	-.323 (.153)**	.339 (.395)	-.476 (.211)**
$LeftGov$	-1.647 (.553)***	-2.251 (.918)**	-1.424 (.565)**	-1.801 (.622)***	-2.644 (.969)***	-1.778 (.618)***
$\Delta Unem * LeftGov$	-.013 (.494)	-.500 (.866)	-.099 (.442)	.056 (.496)	-.643 (.855)	.027 (.438)
$\Delta Inflation * LeftGov$	-.791 (.428)*	-1.171 (.576)**	-.872 (.503)*	-.768 (.412)*	-1.158 (.563)**	-.799 (.469)*
$\Delta Growth * LeftGov$	.315 (.704)	-.480 (1.132)	-.251 (.786)	1.205 (1.017)	.662 (1.237)	.918 (.990)
Constant	23.916 (7.065)***	4.026 (10.904)	27.078 (10.159)***	25.737 (10.287)**	.753 (9.880)	36.762 (18.897)*
N. Obs.	313	155	313	313	155	313
N. Countries	8	4	8	8	4	8
R ²	.2	.237	.319	.216	.282	.35
ρ	.532	.350	.533	.583	.470	.660

Spatially weighted error correction model with country (and in Models 2.3 and 2.6, time) fixed effects. Dependent variable is proportion of respondents intending to vote for a luxury party. $\Delta Unem * LeftGov$ employs $Unemployment$ in Models 2.1-2.3 and $IntlUnem$ in models 2.4-2.6. Robust standard errors, ***p < .01; **p < .05; *p < .10.

10.1 Economic Policy

When the economy is important

Table 3. Hierarchical Ordered Logit of Economic Performance and Government Approval

	1		2	
	Coeff.	SE	Coeff.	SE
Per capita GDP growth	0.250***	(0.062)	0.244***	(0.062)
Inflation	-0.114	(0.063)	-0.101	(0.064)
Unemployment rate	-0.042	(0.027)	-0.033	(0.027)
Respondent says economy important	-0.057*	(0.028)	0.121	(0.064)
Important × GDP growth			0.026*	(0.013)
Important × inflation			-0.029*	(0.012)
Important × unemployment			-0.014*	(0.007)
Human rights are respected	0.415***	(0.017)	0.415***	(0.017)
Corruption is pervasive	-0.382***	(0.017)	-0.382***	(0.017)
Self-identifies with executive party	1.835***	(0.041)	1.835***	(0.041)
Does not self-identify with any party	0.428***	(0.028)	0.429***	(0.028)
Ideology	0.038***	(0.005)	0.038***	(0.005)
Age	-0.066***	(0.011)	-0.067***	(0.011)
Female	0.092***	(0.025)	0.093***	(0.025)
Education	-0.015	(0.008)	-0.016*	(0.008)
Respondent is unemployed	-0.182***	(0.053)	-0.178***	(0.053)
Employed in public sector	0.021	(0.032)	0.022	(0.032)
Employed in mixed sector	0.122	(0.076)	0.123	(0.076)
Income	-0.012	(0.010)	-0.014	(0.010)
Urban	-0.020	(0.011)	-0.021	(0.011)
Effective number of parties	0.099**	(0.033)	0.098**	(0.033)
Latin America	1.143*	(0.468)	1.163*	(0.471)
Other developing country	-0.513	(0.303)	-0.536	(0.305)
Cut 1	-6.316***	(0.043)	-6.318***	(0.043)
Cut 2	-3.948***	(0.037)	-3.950***	(0.037)
Cut 3	4.518***	(0.262)	4.595***	(0.265)
Country-level variance component	0.267***		0.270***	
N individuals	26,928		26,928	
N countries	31		31	

*p < .05. **p < .01. ***p < .001.

Hypothesis 1: The economy's salience will not be a constant but will vary across individuals and electoral contexts.

Hypothesis 2: Economically vulnerable citizens will pay greater attention to economic issues than citizens whose employment or finances are secure.

Hypothesis 3: The economy's importance will rise in importance during recessions or periods of economic volatility but will fall during good times.

Hypothesis 4: The economy's importance will be lower if citizens perceive governance to be poor or if the country faces a security crisis.

Table 4. Multilevel Binary Logit Model of Which Citizens Say the Economy Is Important in Deciding Whom to Vote For

	β	SE
Per capita GDP growth	-0.171**	(0.049)
Unemployment rate	0.067*	(0.032)
Established democracy	-1.007**	(0.328)
Volatility in growth over previous 10 years	0.248*	(0.104)
200+ deaths from terrorism in past 4 years	-0.790*	(0.366)
Has 100+ soldiers in Iraq	0.152	(0.352)
Human rights are respected	0.059*	(0.024)
Corruption is pervasive	-0.061*	(0.029)
Respondent unemployed	0.337***	(0.074)
Employed in the public sector	-0.105*	(0.053)
Employed in a mixed sector	-0.028	(0.055)
Income	-0.019	(0.019)
Respondent belongs to a union	0.037	(0.032)
Age	0.003	(0.029)
Female	0.048	(0.045)
Education	-0.007	(0.014)
Urban	-0.029	(0.018)
Intercept	-0.440	(0.578)
Country-level variance	0.928***	
Individual-level variance	0.999***	
N individuals	32,531	
N Countries	32	

*p < .05. **p < .01. ***p < .001.

10.1 Economic Policy

Globalization and party response

Table 1. All parties' ideological shifts in response to the international economy. Results for two alternative measures are presented: A. 'left-right shifts on economic policy' and B. 'left-right shifts overall'

	A. Left-right shifts on economic policy	B. Left-right shifts overall
Intercept	-0.194 (0.632)	1.31** (0.975)
Changes in imports (as % of GDP)	-0.391*** (0.169)	-0.508* (0.275)
Changes in exports (as % of GDP)	0.507*** (0.177)	0.573*** (0.252)
Changes in gross private capital flows (% of GDP)	-0.066*** (0.021)	-0.100*** (0.026)
Changes in FDI (as % of GDP)	0.039 (0.079)	0.130 (0.128)
Previous shift	-0.334*** (0.063)	-0.347*** (0.051)
Cases	612	612
Adjusted R ²	0.14	0.15

***Significant at $p \leq 0.01$; **significant at $p \leq 0.05$; *significant at $p \leq 0.10$; based on a two-tailed test.

Table 2. Left-wing versus right-wing parties' ideological shifts in response to the international economy

	A. Left-wing parties only	B. Right-wing parties only	C. All parties with interaction term for left-wing parties
	Left-right shifts economy	Left-right shifts economy	Left-right shifts economy
Intercept	-0.007 (0.698)	-0.501 (0.784)	-0.312 (0.773)
Changes in imports (% of GDP)	-0.277** (0.180)	-0.320 (0.235)	-0.468** (0.230)
Changes in exports (% of GDP)	0.348*** (0.179)	0.619*** (0.184)	0.618** (0.221)
Changes in gross private capital flows (% of GDP)	-0.056** (0.024)	-0.085*** (0.023)	-0.074** (0.0276)
Changes in FDI (% of GDP)	0.001 (0.092)	0.076 (0.052)	0.072 (0.077)
Interact changes in imports (% of GDP) and left party	N/A	N/A	0.189 (0.244)
Interact changes in exports (% of GDP) and left party	N/A	N/A	-0.275 (0.202)
Interact changes in gross private capital flows (% of GDP) and left party	N/A	N/A	0.020 (0.030)
Interact changes in FDI (% of GDP) and left party*	N/A	N/A	-0.071 (0.054)
Previous shift	-0.373*** (0.082)	-0.306*** (0.088)	-0.335*** (0.064)
Left party	N/A	N/A	0.296 (0.771)
Cases	258	205	612
Adjusted R ²	0.15	0.15	0.14

***Significant at $p \leq 0.01$; **significant at $p \leq 0.05$; *significant at $p \leq 0.10$ based on a two-tailed test.

10.1 Economic Policy Globalization and Party Response

$$\begin{aligned}
 \text{party shift}_t = & \beta_0 + \beta_1 \text{left} + \beta_2 \text{public opinion shift}_t + \beta_3 \\
 & [\text{public opinion shift}_t \times \text{left}] + \beta_4 \text{party shift}_{t-1} + \beta_5 \\
 \text{change in trade}_t + & \beta_6 [\text{change in trade}_t \times \text{left}] + \beta_7 \text{change in} \\
 & \text{FDI}_t + \beta_8 [\text{change in FDI}_t \times \text{left}] + \beta_9 \text{change in} \\
 & \text{capflows}_t + \beta_{10} [\text{change in capflows}_t \times \text{left}] + \varepsilon_t
 \end{aligned}$$

Table 1
Results for Models 1–6

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Pooled Coefficient	SE	Pooled Laver-Garry Coefficient	SE	Pooled Comparative Manifesto Project Laver-Garry Cases Coefficient	SE	Pooled Levels Coefficient	SE	Social Democratic Coefficient	SE	Mainstream Nonleft Coefficient	SE
Intercept	-0.018	0.10	0.066	0.24	0.016	0.13	1.1	0.88	0.29**	0.11	-0.059	0.086
Left	0.27*	0.12	0.59*	0.28	0.23	0.16	1.7*	0.88				
Public opinion shift _t	1.0***	0.20	2.2***	0.66	1.2***	0.35	0.37**	0.17	0.44	0.26	1.1***	0.19
Public opinion shift _t × Left	-0.83***	0.27	-1.8*	0.97	-0.69	0.35	-0.54***	0.19				
Party shift _{t-1}	-0.49***	0.088	-0.39***	0.080	-0.44***	0.11	0.57***	0.050	-0.54**	0.17	-0.38***	0.099
Change in trade _t	-0.0017	0.014	-0.015*	0.019	-0.022	0.0086	-0.0074*	0.0038	-0.0050	0.013	-0.0022	0.014
Change in trade _t × Left	-0.0067	0.014	-0.0059	0.030	0.0083	0.0098	0.010***	0.0044				
Change in fdi _t	0.12***	0.035	0.081	0.093	0.095	0.061	0.10*	0.058	0.083	0.064	0.13***	0.035
Change in FDI _t × Left	-0.096**	0.041	-0.024	0.17	-0.016	0.062	0.14**	0.063				
Change in capflows _t	-0.024**	0.012	-0.068*	0.032	-0.047*	0.021	-0.021*	0.012	-0.040*	0.021	-0.023*	0.012
Change in capflows _t × Left	0.0021	0.012	-0.020	0.057	-0.0092	0.021	0.025**	0.012				
N	128		73		73		166		37		68	

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Pooled Coefficient	SE	Pooled Laver-Garry Coefficient	SE	Pooled Comparative Manifesto Project Laver-Garry Cases Coefficient	SE	Pooled Levels Coefficient	SE	Social Democratic Coefficient	SE	Mainstream Nonleft Coefficient	SE
C - 1	30		17		17		38		30		30	
Root Mean Squared Error	0.60		1.0		0.57		0.62		0.55		0.59	
R ²	.36		.37		.38		.65		.40		.40	

Note: The dependent variable is the party's left-right ideological shift between the previous and current election, except for Model 4, where it is the party's ideological position in the current election. For Model 4, the independent variables are also election year values instead of changes, as discussed in the text.

***p = .01. **p = .05. *p = .10. (two-sided tests).

10.1 Economic Policy Globalization and Party Positions

TABLE 1
GLOBALIZATION AND PARTY POSITION: ALTERNATIVE MEASURES
OF GLOBALIZATION

Dependent Variable	Regression				
	(1) Position	(2) Position	(3) Position	(4) Position	(5) Position
prevposition	.176 (3.57)***	.179 (3.34)***	.188 (3.84)***	.172 (3.32)***	.163 (3.58)***
voter_position	27.2 (2.91)***		9.48 (1.74)*	4.57 (1.42)	35.9 (2.90)***
economic_globalization	1.78 (2.68)***	.0951 (1.44)			
voter_positionXecon_glob	-.346 (2.71)***				
totaltrade			.422 (1.57)		
totaltradeXvoter_position			-.0939 (1.67)*		
fdi				2.41 (2.07)**	
fdiXvoter_position				-.476 (2.08)**	
quinn_all					15.8 (2.75)***
quinn_allXvoter_position					-3.03 (2.81)***
constant	-141	-8.86	-45.3	-25.1	-190
Observations	617	790	617	566	617
Number of parties	138	146	138	131	138
R-squared (overall)	0.45	0.44	0.43	0.47	0.38

Robust, clustered t-statistics are in parentheses; *** $p \leq .01$; ** $p \leq .05$; * $p \leq .10$, two-tailed tests

—H1. The greater the degree to which an economy is exposed to economic globalization, the further to the right political parties in that system will locate.

—H2. The further to the right the median voter is expected to be, the further to the right political parties will locate.

—H3. The further to the right the median voter is expected to be, the lower the rightward impact of economic globalization on political parties.

—H4. The more exposed an economy is to economic globalization, the further to the right parties of both the left and the right will locate, but the impact will be greater on parties of the left.

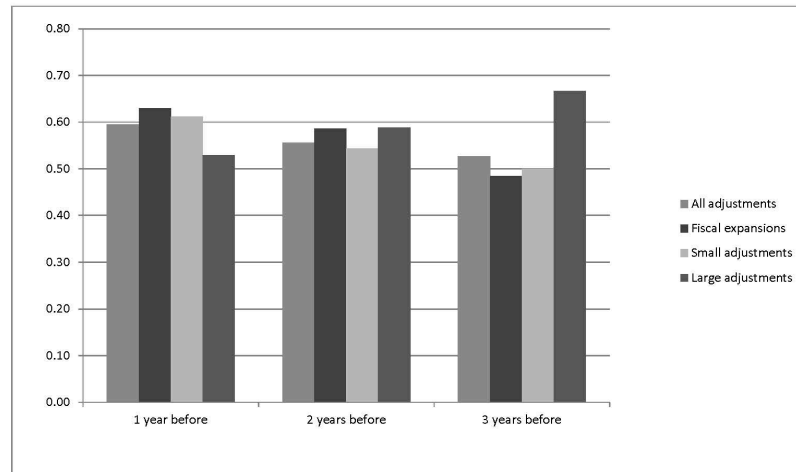
TABLE 2
ESTIMATES FOR DIFFERENT ELECTORAL AND PARTY SYSTEMS

Dependent Variable (Subsample)	Regression			
	(6) Position (Proportional)	(7) Position (Disproportional)	(8) Position (Effective Number of Parties > 2.5)	(9) Position (Effective Number of Parties ≤ 2.5)
prevposition	.18 (3.30)***	.16 (1.34)	.17 (3.05)***	.082 (0.90)
voter_position	24.4 (2.19)**	47.1 (1.51)	29.1 (3.06)***	72.7 (0.86)
economic_globalization	1.52 (1.93)*	3.48 (1.55)	1.85 (2.72)***	5.71 (0.88)
voter_positionXecon_glob	-.30 (2.02)**	-.69 (1.49)	-.35 (2.74)***	-1.11 (0.97)
constant	-127 (2.13)**	-243 (1.62)	-153 (3.09)***	-371 (0.79)
Observations	477	140	530	87
Number of parties	102	36	125	45
R-squared (overall)	0.41	0.49	0.41	0.09

Robust clustered t-statistics are in parentheses; *** $p \leq .01$; ** $p \leq .05$; * $p \leq .10$, two-tailed tests

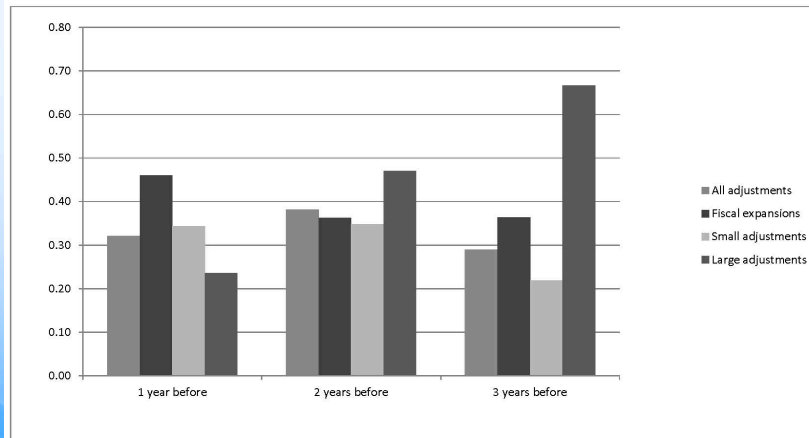
10.2 Fiscal Adjustment Political consequences

Figure 1 – Frequency in cabinet changes and fiscal adjustments



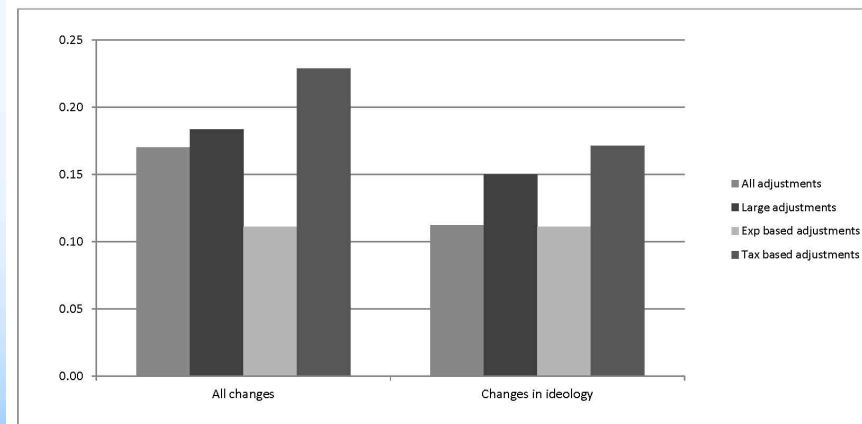
Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

Figure 2 - Frequency in changes of cabinet ideology and fiscal adjustments



Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

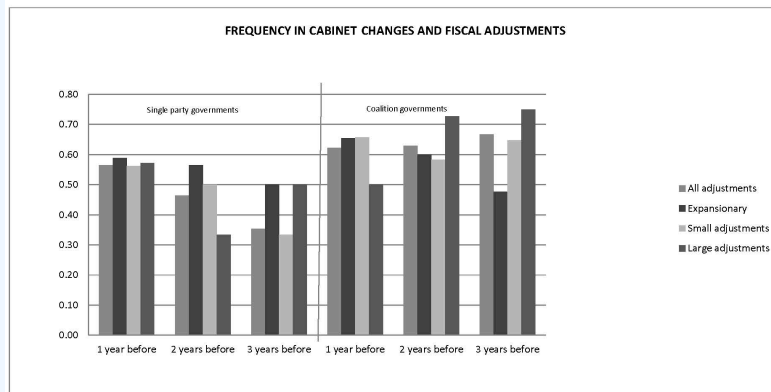
Figure 3 - Frequency in changes of cabinet ideology and cabinet changes given expenditure/tax based adjustments



Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

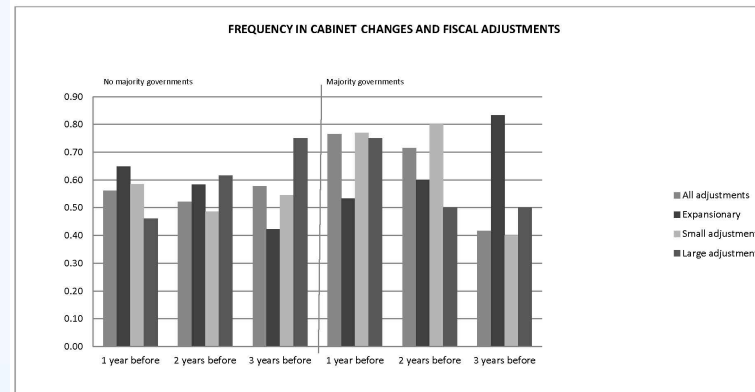
10.2 Fiscal Adjustment Adjustment and government strength

Figure 4 – Frequency in cabinet changes and fiscal adjustments (Single party/Coalition)



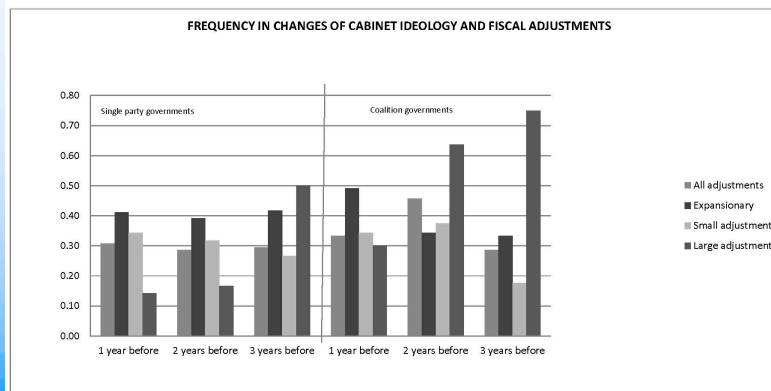
Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

Figure 6 – Frequency in cabinet changes and fiscal adjustments (Majority/No Majority)



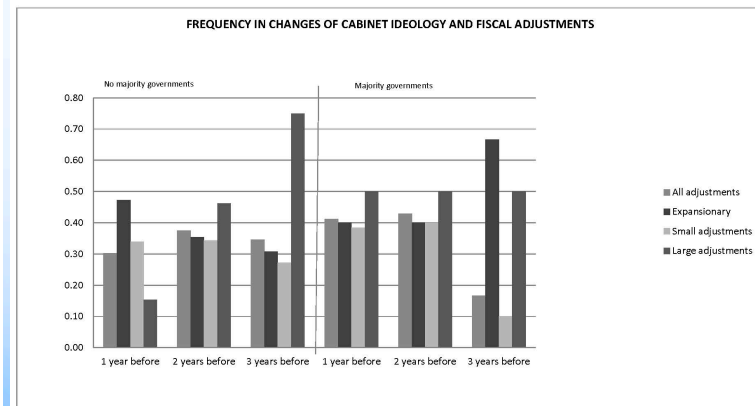
Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

Figure 5 - Frequency in changes of cabinet ideology and fiscal adjustments (Single party/Coalition)



Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

Figure 7 - Frequency in changes of cabinet ideology and fiscal adjustments (Majority/No Majority)



Source: Authors' calculations on OECD Economic Outlook Database no.84 and DPI 2009.

10.2 Fiscal Reforms

Diffusion of corporate tax reform

TABLE 2. The impact of international factors and policy diffusion on statutory marginal corporate tax rates and effective average tax rates on capital, 1981–98

Variables	Statutory rate I	Statutory rate II	Statutory rate III	Effective rate I	Effective rate II	Effective rate III
<i>International factors</i>						
LIBERALIZATION OF CAPITAL CONTROLS _{t-1}	-.9004** (.3758)	-.9082** (.3790)	-.9547** (.4591)	-.0655 (.4319)	-.0777 (.4326)	.0581 (.5453)
TRADE _{t-1}	-.0022 (.0092)	-.0055 (.0093)	-.0067 (.0096)	-.0065 (.0063)	-.0060 (.0064)	-.0099* (.0071)
AVERAGE STATUTORY TAX RATES IN OTHER COUNTRIES _{t-1}	.1249 (.2206)	—	—	—	—	—
WEIGHTED STATUTORY TAX RATES IN OTHER COUNTRIES _{t-1}	—	.1438* (.1053)	.0493 (.1038)	—	—	—
CHANGE IN US TOP STATUTORY CORPORATE TAX RATE _{t-1}	—	—	.0876 (.1295)	—	—	—
US TRADE _{t-1}	—	—	.0086 (.0215)	—	—	.0138 (.0307)
US CORPORATE TAX RATE _{t-1} × US TRADE _{t-1}	—	—	.0167** (.0076)	—	—	—
AVERAGE EFFECTIVE TAX RATES IN OTHER COUNTRIES _{t-1}	—	—	—	.1149 (.1528)	—	—
WEIGHTED EFFECTIVE TAX RATES IN OTHER COUNTRIES _{t-1}	—	—	—	—	.0014 (.1108)	—
CHANGE IN US EFFECTIVE TAX RATE ON CAPITAL _{t-1}	—	—	—	—	—	-.0678 (.1332)
EFFECTIVE US TAX RATE _{t-1} × US TRADE _{t-1}	—	—	—	—	—	.0119* (.0087)
<i>General model</i>						
STRUCTURAL UNEMPLOYMENT	.1090 (.1114)	.0985 (.1118)	.1190 (.1245)	-.2206** (.1099)	-.2221** (.1098)	-.2365** (.1300)
PUBLIC SECTOR DEBT _t	.0104 (.0092)	.0104 (.0092)	.0089 (.0112)	.0182** (.0095)	.0176** (.0094)	.0186** (.0111)
NEEDS – ELDERLY POPULATION	-.0600 (.1402)	-.0572 (.1364)	-.0505 (.1519)	-.0097 (.1426)	-.0143 (.1429)	-.0077 (.1583)
TAX RATE _{t-1}	.8922*** (.0355)	.8960** (.0353)	.9005** (.0361)	.9490** (.0291)	.9497** (.0268)	.9487** (.0274)
GROWTH _{t-1}	-.0165 (.1394)	-.0166 (.1393)	.0342 (.1423)	-.2348** (.1338)	.2210** (.1332)	.2516** (.1356)
PERCENT CHANGE REAL PROFITS _{t-1}	-.0281 (.0662)	-.0244 (.0658)	-.0340 (.0676)	-.1670** (.0662)	-.1709** (.0617)	-.1744** (.0665)
DOMESTIC INVESTMENT _{t-1}	.0286 (.0476)	.0342 (.0483)	.0388 (.0495)	.0523 (.0499)	.0606 (.0481)	.0632* (.0489)
RIGHT GOVERNMENT	-.0050 (.0059)	-.0039 (.0061)	-.0051 (.0065)	-.0042 (.0085)	-.0044 (.0086)	-.0049 (.0085)
Constant	7.6267	7.3412	7.2765	1.1701	1.2845	.9242
Observations	238	238	238	256	256	256
R ²	.8466	.8474	.8466	.9062	.9060	.9090

Notes: Statutory corporate tax models are estimated with 1982–98 data by ordinary least squares (OLS); effective capital tax rate models are estimated with 1981–96 data. The table reports OLS unstandardized regression coefficients and panel-corrected standard errors.

** Indicates significance at the .05 level or below; * indicates significance at the .10 level or below.

TABLE 3. The conditional diffusion of U.S. tax policy change: The role of party governments and median voters, 1981–98

Variables	Statutory rate I	Statutory rate II	Effective rate I	Effective rate II
WEIGHTED STATUTORY TAX RATES IN OTHER COUNTRIES _{t-1}	.0508 (.1026)	.0512 (.1027)	—	—
CHANGE IN US TOP STATUTORY CORPORATE TAX RATE _{t-1}	-.1184 (.2099)	.1113 (.1284)	—	—
US TRADE _{t-1}	.0063 (.0213)	.0016 (.0244)	.0110 (.0304)	.0114 (.0805)
US CORPORATE TAX RATE _{t-1} × US TRADE _{t-1}	.0160** (.0076)	.0167** (.0078)	—	—
WEIGHTED EFFECTIVE TAX RATES IN OTHER COUNTRIES _{t-1}	—	—	.0222 (.1282)	.0196 (.1269)
CHANGE IN US EFFECTIVE TAX RATE ON CAPITAL _{t-1}	—	—	-.2211 (.1920)	-.0003 (.1362)
EFFECTIVE US TAX RATE _{t-1} × US TRADE _{t-1}	—	—	.0125* (.0086)	.0096 (.0089)
RIGHT PARTY GOVERNMENT (10-year average party control)	-.0035 (.0068)	—	-.0049 (.0055)	—
US CORPORATE RATE × RIGHT PARTY GOVERNMENT	.0045** (.0025)	—	—	—
US EFFECTIVE CAPITAL RATE × RIGHT PARTY GOVERNMENT	—	—	.0042 (.0035)	—
IDEOLOGICAL POSITION OF THE MEDIAN VOTER _{t-1}	—	-.0089 (.0256)	—	-.0067 (.0270)
US CORPORATE RATE × MEDIAN VOTER _{t-1}	—	.0038 (.0131)	—	—
US EFFECTIVE CAPITAL RATE × MEDIAN VOTER _{t-1}	—	—	—	.0145 (.0141)

Notes: Corporate tax models are estimated with 1982–98 data by ordinary least squares (OLS); capital tax models are estimated with 1981–96 data. The table reports OLS unstandardized regression coefficients and panel-corrected standard errors. All estimates presented in the table are obtained by adding interactions between U.S. corporate and capital tax rates and mediating factors to the full models presented in Table 2. Estimates for variables in the general model are not reported to conserve space (complete results are available from the author).

** Indicates significance at the .05 level or below; * indicates significance at the .10 level or below.