Fiscal Policy and the Democratic Process in the European Union*

William Roberts Clark
william.clark@nyu.edu

Matt Golder
mrg217@nyu.edu

Sona Nadenichek Golder†
sln202@nyu.edu

August 17, 2004

European Union Politics 3:2 (June 2002)

Abstract

The construction of a monetary union with a single currency in Europe raises serious concerns for those who understand the democratic process as one in which social groups compete on different ideological programs. This is because it increasingly constrains national governments of different partisan hues to follow similar fiscal and monetary policies. Recent empirical studies indicate that these concerns might be somewhat misplaced since there is evidence that partisan convergence on macroeconomic policy predates these institutional developments. One problem with these studies, though, is that they fail to include the electoral system as a constraint on partisan behavior. Since electoral systems generate centripetal and centrifugal tendencies, we should only expect to find strong evidence for partisan differences where electoral rules encourage dispersion. We test this argument using data on fiscal policy from European Union countries between 1981 and 1992. We find that there is still no systematic evidence for partisan differences. Given this, it is hard to see how EMU can add to the democratic deficit in the European Union.

Key Words: Electoral System, European Monetary Union, Fiscal Policy, Partisan Politics

*The authors would like to thank three anonymous reviewers for their helpful comments and the participants on the Fiscal Policy and Economic and Monetary Union panel at the 2001 European Community Studies Association Conference, Wisconsin. All data and do-files necessary to replicate the results in this paper can be found at *http* : *//homepages.nyu.edu/* ∼ *mrg*217 on publication. Alternatively, you can contact the authors.

†The authors can be contacted by mail at the Department of Politics, New York University, 715 Broadway, 4th Floor, New York, NY 10003-6806. The fax number is 212-995-4184.

1 Introduction

Does the construction of a monetary union with a single currency damage democracy in the European Union? Increasing European financial integration certainly raises serious concerns for those who understand the democratic process as one in which social groups with different ideological programs compete for political power.[1] There is a long tradition in political science that parties of the left and right offer voters a choice between different macroeconomic policies. Hibbs (1977) argued that governments of the left run larger budget deficits and are more expansionary than governments of the right. Cameron (1978) presented evidence that the size of the public sector is a function of partisan orientation. Most of the subsequent research on welfare policy also found some connection between government spending or revenue collection and the ideological composition of governments. Noticeable differences in macroeconomic policy are predicted by much of the formal theoretical literature as well, although the magnitude of these differences is typically smaller than that posited in the informal literature.

However, conventional wisdom suggests that the creation of the European Monetary Union and the implementation of the convergence criteria now constrain governments of different partisan hues to follow similar macroeconomic policies. As a result, the democratic process is challenged because political parties are no longer able to offer their electorate a significant choice on fiscal or monetary performance (Paulson 1997). Traditionally, scholars have focused on how EMU increases the democratic deficit with respect to monetary policy. This is because the European Central Bank (ECB), which is responsible for monetary policy in the euro zone, is unaccountable to both national and European political institutions (Verdun 1998, Gormley & de Haan 1996). The unaccountability of the ECB is enshrined in Article 107 of the Maastricht Treaty (Paulson 1997, Teivainen 1997). However, EMU potentially threatens the democratic process with respect to fiscal policy as well. This is the case even though the instruments of fiscal policy remain primarily in the hands of national governments (Verdun 1998: 109). Consider the 1997 legislative elections in France. A right wing government was voted out of office due to austere economic measures it had introduced to comply with Maastricht's debt criteria. The French electorate clearly expressed its support for the Socialist party and its declared commitment to job creation. The problem is that governments

of the left are now equally constrained to follow the Maastricht convergence criteria. No matter how large the mandate for change, the left remains as bound by the requirements of EMU as was the right.

Recent empirical studies indicate that these concerns for the democratic process might be somewhat misplaced since there is evidence that partisan convergence on macroeconomic policy predates these institutional developments. In fact, most recent studies find that partisan differences in macroeconomic policy and performance have always been the exception rather than the rule. Garrett (1998) finds that systematic evidence for partisan differences in macroeconomic outcomes and a host of fiscal policy instruments is mixed at best. Clark (forthcoming) replicates this finding and argues that there is little evidence of partisan differences in fiscal or monetary policy even after controlling for the modifying effects of exchange rate regime. Clark and Hallerberg (2000) find little or no systematic relationship between partisan orientation and government debt. These results do not indicate that partisan macroeconomic policies have disappeared recently as a result of European financial integration and monetary union; they suggest that they never existed in the first place.

Clark (forthcoming) argues that the absence of partisan effects on macroeconomic policy is due to the fact that the environment in which incumbents operate encourages convergence in the policies they adopt. He believes that policy convergence may occur because of behavior predicted by the Median Voter Theorem (Downs 1957). However, it is problematic to use this theorem to explain partisan convergence across a broad sample of European Union countries since most of the formal literature on electoral competition fails to locate convergence equilibria beyond the familiar case of two party plurality rule. Although it is true that electoral competition may induce convergence in a small number of European Union countries, theory indicates that policy divergence should be expected in a wide range of institutional settings that are common across Europe. None of the recent empirical studies of the partisan model take into account the constraints on partisan politics posed by the electoral system. As a result, their failure to find systematic evidence of partisan effects on macroeconomic policy prior to the 1990s may be the result of inappropriately lumping together observations where policy divergence is expected with cases where it is not. We are not

claiming that greater ideological convergence drives fiscal policy. Our contention is simply that empirical analyses have failed to test the partisan hypothesis in those situations most likely to support its predictions. Until this is done, it would be wrong to dismiss the partisan hypothesis.

In this paper, we summarize the formal literature on spatial competition and focus on those aspects of electoral systems that encourage or discourage policy divergence. We then test implications from this discussion using data on fiscal policy from European Union countries between 1981 and 1992. If we find evidence of partisan effects on fiscal policy, then we should be concerned that the Maastricht Treaty has harmed the democratic process by making it difficult for political parties to offer clear and distinct choices on fiscal policy to their voters. It would be wrong to think that the concerns for the democratic process will be assuaged if we find that the partisan composition of governments has no effect in this period; it just means that we need to look beyond increased European financial integration and monetary union for the source of macroeconomic policy convergence.

After a brief overview of the main theoretical and empirical findings in the partisan literature, we analyze the impact that electoral systems have on the spatial position of political parties. We generate hypotheses about the types of electoral systems under which we would expect to see partisan differences in macroeconomic policy. In the fourth section we describe the interaction model that we use to test these hypotheses. Next, the results of the model are discussed. Finally, we conclude with suggestions for areas of further research.

2 The Partisan Literature

The partisan model is a set of loosely connected assumptions about the ways in which the goals of voters and policymakers interact with the structural environment to produce partisan differences in policies and/or macroeconomic outcomes. Partisan differences are typically thought to result from divergent policy concerns among political parties. These concerns can stem from intrinsic preferences over macroeconomic outcomes or from the recognition that political survival depends on pleasing distinctive constituencies. The central question addressed by the partisan literature has

not changed since the foundational work of Hibbs (1977): where and when do partisan differences exist? Three branches of partisan research can be distinguished:

1. The Hibbsian or pluralist approach examines the direct and unconditional effect of a government's ideological orientation on macroeconomic policy and outcomes.

2. The social democratic corporatist approach argues that the incentives for, and the effectiveness of, partisan policies depend on the strength and centralization of labor market institutions.

3. The open-economy partisan approach analyzes the interaction between partisan behavior and the degree to which a nation's goods and capital markets are integrated with the international economy.

Conclusive evidence of partisan differences has proven difficult to find despite numerous empirical studies and various research designs.

Hibbs (1977) argued that advanced democratic states comprise distinctive constituencies that differ in their assessment of macroeconomic outcomes and that these differences are reflected in the platforms and behavior of parties that arose to represent them. As a result, 'working-class based Socialist and Labor parties typically attach far greater importance to full employment than to inflation, whereas business oriented, upper middle-class based Conservative parties generally assign higher priority to price stability than to unemployment' (1977: 1470). Thus, one should expect parties of the left to produce consistently higher levels of output and inflation as well as lower levels of unemployment than parties of the right.

Many analysts have inferred that the representation of these different constituencies will also lead to systematic differences in fiscal policies (Cameron 1978). Specifically, they argue that left governments will be more aggressive in the taxation of capital, more reliant upon progressive income taxes (Garrett 1998), and quicker to expand social welfare programs along with other mechanisms that redistribute wealth (Stephens 1979, Castles & Mckinley 1979, Hicks & Swank 1984). Left wing governments are also expected to exhibit a greater enthusiasm for counter-cyclical demand

management (Huber, Ragin & Stephens 1993). The notion that left governments will be more willing to raise taxes than those of the right stems from the assumption that their constituency will be net recipients of government services and, therefore, less resistant to the tax increases that fund them. The left's pursuit of expansionary policies and generous welfare provisions is expected to lead to a propensity for deficit spending (Hahm 1996, Hahm, Kamlet & Mowery 1996), with public indebtedness increasing over time (Cameron 1978).

For two decades, scholars have been attempting to establish an empirical relationship between the ideological orientation of government and various aspects of fiscal policy. However, the evidence from studies looking for partisan differences in the propensity to raise taxes, those focusing on spending behavior, and those emphasizing overall fiscal stance is mixed at best. While there is some support for the notion that smaller shares of national income are extracted as revenues when right parties are influential (Cameron 1978, Huber, Ragin & Stephens 1993), the evidence related to specific tax policies does not support the partisan model (Swank 1992). Contrary to the partisan hypothesis, center and left parties are *more* reluctant to tax capital than parties of the right and there is conflicting evidence about the relationship between partisanship and personal income taxes (Hallerberg & Basinger 1998).

The picture is similar with respect to studies on spending. The early cross-sectional work tends to confirm the hypothesis that parties of the left have a tendency to spend more than parties of the right (Castles 1982, Hicks & Swank 1984, Swank 1988, Comiskey 1993). However, for both technical (limited degrees of freedom) and conceptual reasons (lack of evidence for party differences within countries), these results are a slender reed on which to rest the partisan model. Evidence from recent time-series cross-sectional tests is also problematic. First, they produce conflicting results. Some suggest that Social and Christian Democratic parties spend more (De Haan & Sturm 1994, Rice 1986, Roubini & Sachs 1989), others that parties of the left spend less (Ross 1997), and still others that there is no relationship at all between partisanship and spending (Pampel & Williamson 1988, Iversen 2001). In addition, many of these studies have been criticized on technical grounds (Beck & Katz 1995*a*, Beck & Katz 1995*b*) and revisions have either not been forthcoming or inconclusive. Finally, recent evidence suggests that there is no relationship between partisanship

and either budget deficits or public debt (Ross 1997, Clark & Hallerberg 2000, Hahm, Kamlet & Mowery 1996, Hallerberg & von Hagen 1998, Hallerberg & von Hagen 1999).

Although there is theoretical reason to believe that partisan differences in macroeconomic policies and outcomes should exist, there is no strong and consistent evidence that this is the case. The evidence suggests that there was never a time (in the post-war period at least) in which political parties offered voters a clear choice in either macroeconomic policies or outcomes. This implies that the provisions for monetary union in the Maastricht Treaty cannot add to the democratic deficit in the European Union by constraining the macroeconomic choices of partisan national governments; partisan convergence had already occurred. However, it would be wrong to claim that empirical evidence for the absence of partisan macroeconomic policies before the 1990s is conclusive since none of the studies mentioned above take into account the pressures for ideological divergence or convergence created by different electoral systems.

3 Electoral Systems and Macroeconomic Policies

Spatial models have traditionally been used to analyze the ideological positions taken by political parties (Hotelling 1929, Smithies 1941, Black 1958, Downs 1957, Eaton & Lipsey 1975). However, few results derived from this research have been applied to questions concerning the impact of partisan government on macroeconomic policy. This is despite the fact that voters in these models seem to assume a fairly direct connection between campaign promises and the policies that will be implemented after the election. One area of research on spatial models that seems particularly relevant to these questions focuses on the effects that electoral systems have on the ideological positions of parties (Cox 1987, Cox 1990, Cox 1990a, Greenberg & Weber 1985). Cox (1990) has argued that electoral systems are characterized by either centripetal or centrifugal tendencies. Thus, some electoral systems encourage ideological convergence and some divergence. If this were true one would expect to see greater partisan differences in macroeconomic policy and outcomes in those countries whose electoral systems promote ideological divergence. Partisan differences should be small or non-existent in centripetal systems. The recent empirical studies mentioned above do

not take this into account and may, therefore, be underestimating the degree to which partisan differences exist.

There is clearly reason to believe that electoral institutions might shape macroeconomic policy by influencing the ideological positions taken by political parties.[2] It has long been known that electoral laws affect the number of political parties in a given party system (Duverger 1954, Amorim Neto & Cox 1997, Cox 1997), as well as the degree of disparity between vote shares and seat shares (Taagepera & Shugart 1989, Lijphart 1994). However, research also suggests that electoral institutions influence the convergence and divergence of political parties (Cox 1990a, Cox 1990, Shepsle & Cohen 1990). This has important implications for the partisan literature since we are unlikely to see partisan differences in those electoral systems that encourage ideological convergence.

Spatial models of elections have drawn on the economic literature explaining the location of firms in a one-dimensional market to analyze the ideological positions taken by political parties (Hotelling 1929, Eaton & Lipsey 1975). Most models focus on two-competitor races in single-member districts and investigate the assumptions that underlie the prediction of ideological convergence on the median voter's ideal point (Downs 1957, Black 1958). However, as Cox (1990: 904) notes, 'the basic logic of the spatial approach ... is applicable in any electoral environment.' Cox uses the spatial model to investigate how these tendencies are created by different electoral systems. Centripetal incentives lead political parties to implement centrist policies, while centrifugal incentives lead them to follow more extreme positions. The centrism or extremism of these policies cannot be understood in terms of the content or substance of ideology, but only in terms of the array of opinions in a given electoral system (Cox 1990: 913). His general conclusions are that the dispersion of policies depends on (i) the number of votes per voter, (ii) whether partial abstention is allowed, (iii) the size of the district magnitude and (iv) whether the cumulation of votes is possible. These conclusions are applicable to both plurality and proportional representation systems.

The relationship between the number of candidates running for office and the number of seats available in an electoral district are the crucial factors determining whether partisan convergence occurs or not. While the exact threshold where dispersion occurs varies depending on the specific

electoral system, Cox's general finding is that centripetal forces are less pronounced in plurality systems when the number of candidate's is large. He also shows that proportional representation and plurality rule (without partial abstention or cumulative voting) are essentially identical. This means that the central factor limiting policy convergence is the number of electoral competitors. Cox (1990: 919) goes on to note that the number of competitors is strongly determined by the district magnitude. As the district magnitude increases, the equilibrium number of competitors also increases (Cox 1997, Cox 1999). Thus, ideological divergence increases with district magnitude. This suggests that we should see greater partisan differences in electoral systems characterized by large district magnitudes. Partisan differences should be lower or non-existent when district magnitude is low. Since we are specifically interested in how the electoral system affects partisan behavior we chose to focus on the impact of district magnitude in this paper. Clearly, one could also focus on the number of competitors. Testing our argument with the effective number of parliamentary or elective parties as a proxy for the number of competitors does not affect our inferences.

4 The Model

The standard model examining the influence of partisan orientation on fiscal policy is the following:

$$POLICY_{it} = \beta_0 + \beta_1 LEFT_{it} + \beta_2 CONTROLS_{it} + \epsilon_{it}$$

where LEFT is some indication of government orientation in a one-dimensional left-right policy space. Typically, POLICY is some measure of a government's propensity to use deficit spending or otherwise expand government involvement in the economy. If policy convergence were to occur, then POLICY would be independent of LEFT and β_1 would equal zero. If governments dominated by the left were to behave in the manner predicted by the partisan model, then convergence would not occur and β_1 would be greater than 0. In order to incorporate constraints on partisan differences in fiscal policy, be they capital mobility (Garrett 1998), exchange rate regime (Oatley 1999), or

domestic fiscal institutions (Hallerberg & von Hagen 1999, Clark & Hallerberg 2000), it is necessary to use a multiplicative interaction model (Friedrich 1982, Gill 2001):

$$\begin{aligned} POLICY_{it} = \beta_0 + \beta_1 LEFT_{it} + \beta_2 CONSTRAINT_{it} &+ \beta_3 (LEFT * CONSTRAINT)_{it} \\ &+ \beta_4 CONTROLS_{it} + \epsilon_{it} \end{aligned}$$

If Cox's argument about the effect of the electoral system on convergence and divergence in candidate positions is correct (and candidate positions are correlated with actual policies), then the electoral system is another constraint on partisan differences in fiscal policy. As we argued above, there is good theoretical reason to believe that district magnitude captures electoral system constraints. If MAGNITUDE measures logged median district magnitude in an electoral system, then we can test the effect of electoral laws on dispersion in fiscal policy with the following model:[3]

$$\begin{aligned} POLICY_{it} = \beta_0 + \beta_1 LEFT_{it} + \beta_2 MAGNITUDE_{it} &+ \beta_3 (LEFT * MAGNITUDE)_{it} \\ &+ \beta_4 CONTROLS_{it} + \epsilon_{it} \end{aligned}$$

The conditional estimated causal effect of partisan orientation on fiscal policy is now given by $\beta_1 + \beta_3 MAGNITUDE$. Since we expect policy to converge on the preferences of the median voter when MAGNITUDE = 0, we expect $\beta_1 = 0$. (Note that MAGNITUDE is zero when the median district magnitude is one). We expect partisan differences to increase as MAGNITUDE increases. Thus, we predict that β_3 will be greater than zero and that $\beta_1 + \beta_3 MAGNITUDE$ will be greater than zero when MAGNITUDE is 'sufficiently' high to induce dispersion.

We analyze the effects of partisan government on the change in government debt. We do this for two reasons. The first is that a focus on government debt allows us to analyze the impact of partisanship on a government's overall fiscal stance. Thus, our results can easily be compared with several recent studies that take a similar approach (Clark & Hallerberg 2000, Hallerberg & Basinger 1998, Hallerberg & von Hagen 1999). The second is that it allows us to test whether the

construction of a single currency damages the democratic process in European Union countries. One of the aims of the 1992 Maastricht convergence criteria was to force convergence by national governments on the level of debt that they held.[4] As a result, governments of the left and right that wished to join a single currency were constrained to follow similar fiscal policies towards debt. Our model enables us to see whether partisan convergence on debt had already occurred prior to these institutional changes.[5] We use an extension of Hallerberg and von Hagen's (1999) time-series-cross-sectional data set and the following model.[6]

$$\begin{aligned} DEBT_{it} &= \beta_0 + \beta_1 LEFT_{it} + \beta_2 MAGNITUDE_{it} + \beta_3 STRONG\ FINANCE\ MINISTER_{it} \\ &+ \beta_4 NEGOTIATED\ TARGETS_{it} + \beta_5 (LEFT * MAGNITUDE)_{it} \\ &+ \beta_6 (LEFT * STRONG\ FINANCEMINISTER)_{it} \\ &+ \beta_7 (LEFT * NEGOTIATED\ TARGETS)_{it} + \beta_8 LAGDEBT_{it-1} + \beta_9 UNEMP_{it} \\ &+ \beta_{10} DEBTCOSTS_{it} + \beta_{11} GDP_{it} + \sum (\beta_i GOVERNMENT\ TYPE_{it}) + \epsilon_{it} \end{aligned}$$

The dependent variable (DEBT) is the change in the ratio of gross debt to gross domestic product. LEFT is a coding for the partisanship orientation of the government. We report results based on two measures of partisanship. The first is from Woldendorp, Keman and Budge (1993), the second is from Blais, Blake and Dion (1993). MAGNITUDE is the logged median district magnitude in each country. STRONG FINANCE MINISTER is coded 1 when there is a strong finance minister, 0 otherwise. The inclusion of this variable is motivated by the fact that strong finance ministers generally serve as agenda-setters on the budget, have monitoring functions over the budgets of other ministries, and can strike out spending on some occasions when it is deemed excessive. NEGOTIATED TARGETS is coded 1 when coalition partners negotiate budgets for every ministry, and 0 otherwise. Hallerberg and von Hagen argue that both of these fiscal institutions (a strong finance minister and negotiated targets) constrain the use of fiscal policy for political purposes. LAGDEBT is a lagged dependent variable and measures the change in debt ratio lagged by one year, while UNEMP measures the change in the unemployment rate since the previous year. DEBTCOSTS represents the change in debt servicing costs, which is computed as

the change in the real interest rate minus the change in the growth rate times the gross deficit in the previous year. GDP measures the change in real gross domestic product.[7] These economic variables are expected to influence the budget in a given year. Higher levels of unemployment and debt servicing costs should increase government debt levels, while higher levels of economic growth should decrease debt levels. GOVERNMENT TYPE is a vector of dummy variables meant to capture the claim made by Roubini and Sachs (1989) that the type of government affects the size of budget deficits. One-party majority governments maintain the tightest fiscal discipline, two- or three-party majority governments less so, and four- or five-party governments even less; minority governments, regardless of the number of parties in the coalition, are the most undisciplined.[8]

The specification of this model is identical to that reported in Clark and Hallerberg (2000) except that we removed the exchange rate regime as a modifying variable and substituted MAGNITUDE instead. We dropped the variable for the exchange rate regime since Clark and Hallerberg found that it did not modify the effects of partisanship on fiscal policy in a manner consistent with theoretical predictions. Although we have stated the predicted values for the coefficients, it is important to remember that the hypothesized modifying effects on the relationship between left governance and fiscal policy can best be gauged by examining the conditional coefficients for LEFT. Figure 1 plots a hypothetical set of conditional coefficients consistent with our theoretical argument.

(Insert Figure 1)

The top line plots the conditional LEFT coefficient for the case where neither fiscal institution constrains the partisan use of fiscal policy. We do not expect left governments to affect changes in debt when MAGNITUDE equals zero because electoral competition constrains dispersion. However, the estimated causal effect of left government should increase and eventually become distinguishable from zero as MAGNITUDE increases. The slope of the lines plotting the conditional coefficients graphically capture the extent to which MAGNITUDE modifies the relationship between the partisan orientation of government and government debt. The adoption of constraining fiscal institutions, such as negotiated targets or a strong finance minister, ought to reduce the

estimated causal effect of left governance on changes in debt irrespective of the district magnitude. The vertical distance between the lines captures the size of this effect. The fact that these lines are parallel reflects our decision not to model the interaction between the modifying variables. As a result, the effect of a change in any modifying variable is constant across all values of the other modifying variables. The decision to place the line for the targets case below the line for the strong finance minister case was arbitrary. Their distance from the top line would be determined by the extent to which they constrain partisan behavior and the literature does not indicate which has a greater constraining effect.

5 Results and Interpretation

The results of our model can be seen in Table 1. In Model I we include the interaction terms for fiscal institutions (LEFT*STRONG FINANCE MINISTER and LEFT*NEGOTIATED TARGETS). These are dropped in Model II. Column A in both models uses the Woldendorp, Keman and Budge (1993) measure of LEFT; column B uses the Blais, Blake and Dion (1993) measure.[9] It should be immediately obvious that the results in column IA do not fit our theoretical model very well. The fact that the coefficient for LEFT is not statistically distinguishable from zero at the standard level of significance (95%) provides some evidence of partisan convergence in single member districts (when neither of the constraints on the political manipulation of fiscal policy are present). This is consistent with the median voter theorem and the literature on spatial location. However, it would be wrong to place too much emphasis on this result since the coefficient *is* significant at the 90% level. Thus, it is arguable that there is some evidence of partisan differences where the formal literature on electoral competition predicts that we should find none. Contrary to our expectations, the coefficient on the interaction term LEFT*MAGNITUDE is negative and statistically significant. This implies that left governments decrease debt levels rather than increase them as district magnitude goes up.

(Insert Table 1)

The results on the other modifying variables do not fit our predictions either.[10] Having a strong finance minister and negotiated targets does not seem to constrain the partisan use of fiscal policy as Hallerberg and von Hagen expect. The coefficient on LEFT*STRONG FINANCE MINISTER is negative, but not statistically significant. Most surprising is the positive and significant coefficient on LEFT*NEGOTIATED TARGETS. This suggests that left governments are actually more likely to be associated with increased government debt when negotiated targets are employed than when they are not.

Figure 2a plots the relationship between the estimated conditional effect of a one unit increase in LEFT on DEBT against the full range of observed values for MAGNITUDE under three of the four logically possible combinations of fiscal institutions. We do not show the full range of conditional coefficients on LEFT for the case when there is a strong finance minister *and* negotiated targets. As predicted by Hallerberg and von Hagen's contention that these institutions are substitutes, we do not have any observations where both institutional constraints are present. The sloping lines indicate the conditional coefficients for LEFT. If a coefficient on this line is significant at the 95% level, then this is indicated by an asterix above that particular coefficient. If there is no asterix, then the coefficient at that point is not significant. Figure 2a should be compared to Figure 1 where we illustrated our hypothesized results. Clearly, they are very different. The middle line plots the conditional LEFT coefficients for the situation already discussed (in the absence of both a strong finance minister and negotiated targets). This was the top line in Figure 1. The line starts out near zero as we expected, but slopes downward rather than upward. Thus, larger district magnitudes do not facilitate an increased link between the partisan orientation of government and government debt in the manner predicted by the partisan hypothesis.

(Insert Figure 2a)

The effects of fiscal institutions are quite surprising. As we might expect, Figure 2a provides no evidence for the partisan argument when there is a strong finance minister. But contrary to expectations, the only case where we find any evidence in favor of the partisan hypothesis is when there are negotiated targets. Adopting negotiated targets actually seems to *encourage* debt across

a wide range of values for MAGNITUDE.

So what overall conclusions can be drawn from Figure 2a? At a minimum, the link between the partisan orientation of government and fiscal policy is more complicated than current theory suggests. Evidence for the partisan model can be found only when there are negotiated targets and when district magnitude is relatively small. There is no evidence of a link between partisan government and fiscal policy that is consistent with the partisan hypothesis when negotiated targets are not present. In fact, there is evidence that governments dominated by left wing parties tend to take on less debt than their right wing competition when MAGNITUDE is large. Figure 2b plots the conditional coefficients derived from Model Ib. The pattern is almost identical to that found in Figure 2a. This suggests that the results discussed above are robust with respect to the choice of partisanship indicator.

(Insert Figure 2b)

These results are not consistent with our theoretical expectations. As a result, we modified our model in several ways in order to verify the robustness of our findings. First, we removed the modifying effects of fiscal institutions (LEFT*STRONG FINANCE MINISTER and LEFT*NEGOTIATED TARGETS). Models IIA and IIB retain MAGNITUDE as a modifying variable, but treat STRONG FINANCE MINISTER and NEGOTIATED TARGETS simply as linear control variables.

(Insert Table 2)

Once again, the coefficients for LEFT are positive, but not statistically significant. This fits our prediction that changes in debt are unrelated to the partisan composition of government in single member districts. However, the coefficients on LEFT*MAGNITUDE are not consistent with our expectations. The negative coefficient on the interaction term implies that the effect of left wing governments on changes in debt decreases as district magnitude goes up. This coefficient never becomes significant, though.

Second, we removed the political variables that captured government type.[11] We then removed STRONG FINANCE MINISTER and NEGOTIATED TARGETS. All the results were qualitatively similar. Thus, we can be confident that the absence of evidence for a relationship between MAGNITUDE and DEBT is not the result of collinearity with other political variables in the model. Third, we specified the model with country dummy variables. Again the results were similar. Fourth, we tested whether district magnitude had a threshold effect. To do this we included a dummy variable for MAGNITUDE that distinguished plurality and PR electoral systems. Again our inferences were unaffected since the interaction term between LEFT and the dummy variable was never significant. Fifth, we specified the model using the effective number of parliamentary parties instead of MAGNITUDE. We also used the effective number of elective parties. The formula for calculating these variables comes from Laakso and Taagepera (1979), while the data come from Mackie and Rose (1991). Although the sign on the interaction term is positive, it is never significant. As a result, our inferences are unaffected.

Finally, we tested our results over a longer period. We had focused on the 1981-92 period since our primary interest was in determining whether European governments had been able to follow partisan fiscal policies in the years immediately prior to the introduction of the Maastricht convergence criteria. One might reasonably ask whether this was a representative period in which to investigate such a question given the increasing pressure toward economic convergence at this time. Our data on debt does not allow us to test our model before 1981. However, we did investigate the impact of partisan government on budget deficits, government revenues and government spending from 1970 to 1989. We used the following model on a dataset from Garrett (1998):

$$\begin{aligned} POLICY_{it} &= \beta_0 + \beta_1 LEFT_{it} + \beta_2 MAGNITUDE_{it} + \beta_3 (LEFT * MAGNITUDE)_{it} \\ &+ \beta_4 LAGPOLICY_{it-1} + \beta_5 GDP_{it} + \beta_6 UNEMP_{it} + \beta_7 OLD_{it} \\ &+ \sum(\beta_i COUNTRY\ DUMMIES_{it}) + \sum(\beta_i PERIOD\ DUMMIES_{it}) + \epsilon_{it} \end{aligned}$$

The partisanship variable (LEFT) is calculated slightly differently to the two measures used in our analysis since it also captures a measure of encompassing labor market institutions (see Garrett

1998). The variable OLD captures the size of the old age population. All of the other variables are self-explanatory. This model is in fact a slight variant of the model found in Garrett (1998). The major change is that we dropped those variables dealing with capital mobility. This is because Clark (forthcoming) has shown that they have no significant effect on fiscal policy. We also dropped countries that are not members of the European Union.

We found that the partisan orientation of governments had no effect on any of these indicators of fiscal policy irrespective of the district magnitude. As a result, we have some confidence that our findings are not specific to the 1981-92 time period. Moreover, the fact that Garrett's measure of partisanship also captures the extent to which encompassing labor market institutions are present, means that this robustness check can also be thought of as a test of the social-democratic corporatist version of the partisan argument. Consequently, our claim that partisan differences in fiscal policy do not occur even where they are encouraged by permissive electoral institutions appears to extend to this version of the partisan argument as well.

6 Conclusion

Since the power to tax and spend is viewed as a central activity of government, the possibility that EMU could constrain the fiscal policy choices of democratically-elected governments is a cause of concern. However, if democratic control of fiscal policy is valuable because it allows voters to select from among competing teams implementing different policies, the current study suggests that one cannot lose what one does not have.

As we noted at the outset, recent studies have found little evidence of a systematic relationship between the partisan orientation of government and macroeconomic policy. One possible explanation for this was the failure of these studies to include the electoral system as a potential constraint on partisan macroeconomic policy. However, this paper illustrates that the inclusion of electoral constraints still fails to produce evidence in favor of the partisan model. A link between left governance and loose fiscal policy is only observed under special circumstances that are not consistent with extant theory in a straightforward manner. Specifically, there is evidence of a link

between left governance and indebtedness only when negotiated targets are used *and* when district magnitude is limited. This link decreases in size as district magnitude increases. In those specifications where partisanship was not interacted with fiscal institutions, there was no evidence of partisan effects on fiscal policy. Consequently, if a systematic relationship between the partisan orientation of government and fiscal policy exists, the lack of supporting evidence cannot be explained by the failure of previous studies to control for the potential modifying effects of electoral institutions.

This paper used various modifying variables to focus attention on those circumstances where we most expect to observe partisan difference in fiscal policy - where district magnitude is large and where constraining fiscal institutions (negotiated targets or strong finance ministers) are absent. We found no evidence of partisan differences in debt levels under such conditions. It should also be noted that fixed exchange rates and mobile capital were common in the time and place considered here. Given that the Mundell-Fleming model states that both enhance fiscal policy effectiveness, one would expect fiscal policy to be an attractive instrument for incumbents pursuing partisan goals. Despite this, there is little or no evidence of partisan differences in fiscal policy in EU nations.

Clark (forthcoming) suggests that the absence of partisan differences may be the result of either electoral competition or the structural dependence of the state on capital. In the former case, partisan incumbents may be deterred from implementing their preferred policies because the structure of electoral competition compels them to implement policies aimed at the median voter. According to the latter argument, left-wing parties are deterred from implementing their preferred policies because the private control of investment decisions in capitalist systems means that owners of capital can credibly threaten to disinvest if the government pursues policies that are more distributional than they desire (Przeworski & Wallerstein 1988). Since we find no evidence of partisan differences where the literature on electoral competition suggests that they should occur, it is reasonable to conclude that the absence of partisan differences cannot be explained in a standard median voter framework. Thus, if it is the case that the absence of partisan differences is to be explained by either the structure of electoral competition or the structural dependence of the state on capital, the evidence presented in this study provides indirect support for the latter.

Appendix: Data Sources

- **Change in Gross Debt (DEBT)**: Gross government debt over GDP. The data came from the Statistical Annex of European Economy (various years).
- **Change in Debt Costs (DEBTCOSTS)**: Change in the real interest rate minus the change in the growth rate times the gross deficit in the previous year. Same data source as DEBT.
- **Change in Gross Debt Lagged (LAGDEBT)**: Change in gross government debt over GDP lagged by one year. Same data source as DEBT.
- **Change in Unemployment (UNEMP)**: Same data sources as DEBT.
- **Partisanship (LEFT)**: We use the 1993 (1998) Woldendorp, Keman, and Budge (WKB) and the 1993 Blais, Blake and Dion (BBD) measures of partisanship. WKB code governments on a scale of 1 to 5, with 5 indicating a cabinet dominated by parties of the left and 1 indicating a cabinet dominated by parties of the right. A score of 3 indicates an equal balance between parties of the left and right or dominance by center parties. Scores of 2 and 4 indicate Center-Left and Center-Right coalitions respectively. Years of government change receive a score weighted by the share of the year occupied by each government. BBD code parties as 'right' (-1), 'center' (0) and 'left' (1) based on the expert judgments reported in Castles and Mair (1984). In general, parties with a mean expert score of 3.8 or below are coded as left, and those with a mean expert score of 6.3 or greater are coded as right. See BBD for details and exceptions. The percentage of cabinet posts held by parties of the right are then subtracted from the percentage of cabinet posts held by parties of the left and this difference is standardized so that a cabinet in which left (right) parties held all the seats would receive a score of 1 (-1).
- **Government Type (GOVERNMENT TYPE)**: The data for the three dummy variables 2-3 party government, 4-5 party government and minority government are from Hallerberg and von Hagen (Hallerberg & von Hagen 1999). They used the data appendix in the *European Journal of Political Research* (various years) to update the De Haan and Sturm's (1997) measure of government type.

- **Fiscal Institutions (STRONG FINANCE MINISTER and NEGOTIATED TARGETS)**: These variables are coded 1 when the institution is present and 0 otherwise. Strong finance ministers generally serve as agenda-setters on the budget, have monitoring functions over the budgets of other ministries, and can strike out spending on some occasions when it is deemed excessive. Negotiated targets are present when coalition partners negotiate budgets for every ministry. Data appear in Hallerberg and von Hagen (1999).

- **Median District Magnitude (MAGNITUDE)**: This variable represents the district magnitude of the median legislator. If no seats were allocated above the district level then the median legislator was taken as the total number of legislators divided by two. If seats were automatically allocated in tiers above the district level then the number of legislators elected at the district level were found and divided by two to determine the median legislator. If seats were not automatically allocated in tiers above the district level then the median legislator was determined by taking the total number of legislators and dividing by two. The magnitudes of each district in each country were found and the one associated with the median legislator was used. These values were logged. The sources for this data can be found in Golder (2001).

Table 1: The estimated causal effect of a government's partisan orientation on changes in gross debt as conditioned by district magnitude (1981-1992)

	DEBT			
	I		II	
	A	B	A	B
LEFT	1.078	1.943	0.255	0.475
	(0.690)	(1.495)	(0.250)	(0.499)
MAGNITUDE	1.558**	-0.266	0.167	-0.123
	(0.557)	(0.264)	(0.266)	(0.285)
STRONG FINANCE MINISTER	-1.211	-2.456*	-2.038	-1.401
	(1.924)	(1.075)	(1.138)	(1.161)
NEGOTIATED TARGETS	-6.421**	-0.516	-0.558	-0.335
	(1.623)	(0.563)	(0.555)	(0.531)
LEFT*MAGNITUDE	-0.806**	-1.391**	-0.170	-0.335
	(0.268)	(0.523)	(0.128)	(0.261)
LEFT*STRONG FINANCE MINISTER	-0.894	-1.532		
	(0.702)	(1.500)		
LEFT*NEGOTIATED TARGETS	2.239**	3.358**		
	(0.544)	(0.963)		
LAGDEBT	0.459**	0.508**	0.564**	0.568**
	(0.093)	(0.092)	(0.100)	(0.100)
UNEMP	0.043	0.068	0.001	0.056
	(0.050)	(0.065)	(0.053)	(0.062)
GDP	-0.841**	-1.055**	-0.842**	-1.048**
	(0.120)	(0.147)	(0.127)	(0.142)
DEBTCOSTS	0.166	0.050	0.241	0.074
	(0.187)	(0.209)	(0.198)	(0.215)
GOVERNMENT TYPE				
2-3 Party govt.	0.178	0.067	0.364	0.185
	(0.770)	(0.724)	(0.815)	(0.755)
4-5 party govt.	-0.930	-0.150	0.066	0.195
	(1.010)	(0.961)	(0.966)	(0.916)
Minority govt.	-0.054	-0.232	-0.471	-0.449
	(1.095)	(1.135)	(1.272)	(1.280)
Constant	2.669	4.650**	3.595*	3.742*
	(1.958)	(1.733)	(1.537)	(1.786)
Observations	168	144	168	144
Number of Countries	14	12	14	12

Panel-corrected standard errors in parentheses. *significant at 5% level; **significant at 1% level. Specifications in the A columns use the Woldendorp, Keman and Budge measure of Left; those in the B columns use the Blais, Blake and Dion measure.

Table 2: The estimated causal effect of a government's partisan orientation on changes in gross debt (1981-1992)

	DEBT III	
	A	B
LEFT	-0.011	-0.029
	(0.155)	(0.333)
MAGNITUDE	-0.146	-0.116
	(0.254)	(0.292)
STRONG FINANCE MINISTER	-1.645	-1.305
	(0.994)	(1.123)
NEGOTIATED TARGETS	-0.466	-0.271
	(0.538)	(0.527)
LAGDEBT	0.582**	0.587**
	(0.098)	(0.097)
UNEMP	0.022	0.070
	(0.048)	(0.060)
GDP	-0.849**	-1.080**
	(0.127)	(0.141)
DEBTCOSTS	0.252	0.076
	(0.199)	(0.217)
GOVERNMENT TYPE		
2-3 Party govt.	0.537	0.430
	(0.776)	(0.738)
4-5 party govt.	0.318	0.434
	(0.866)	(0.844)
Minority govt.	-0.180	-0.099
	(1.178)	(1.199)
Constant	3.498*	3.297*
	(1.516)	(1.577)
Observations	168	144
Number of Countries	14	12

Panel-corrected standard errors in parentheses. *significant at 5% level; **significant at 1% level. Specifications in the A columns use the Woldendorp, Keman and Budge measure of Left; those in the B columns use the Blais, Blake and Dion measure.

Figure 1: The hypothesized effect of modifying variables on the effect of left governance on changes in government debt.

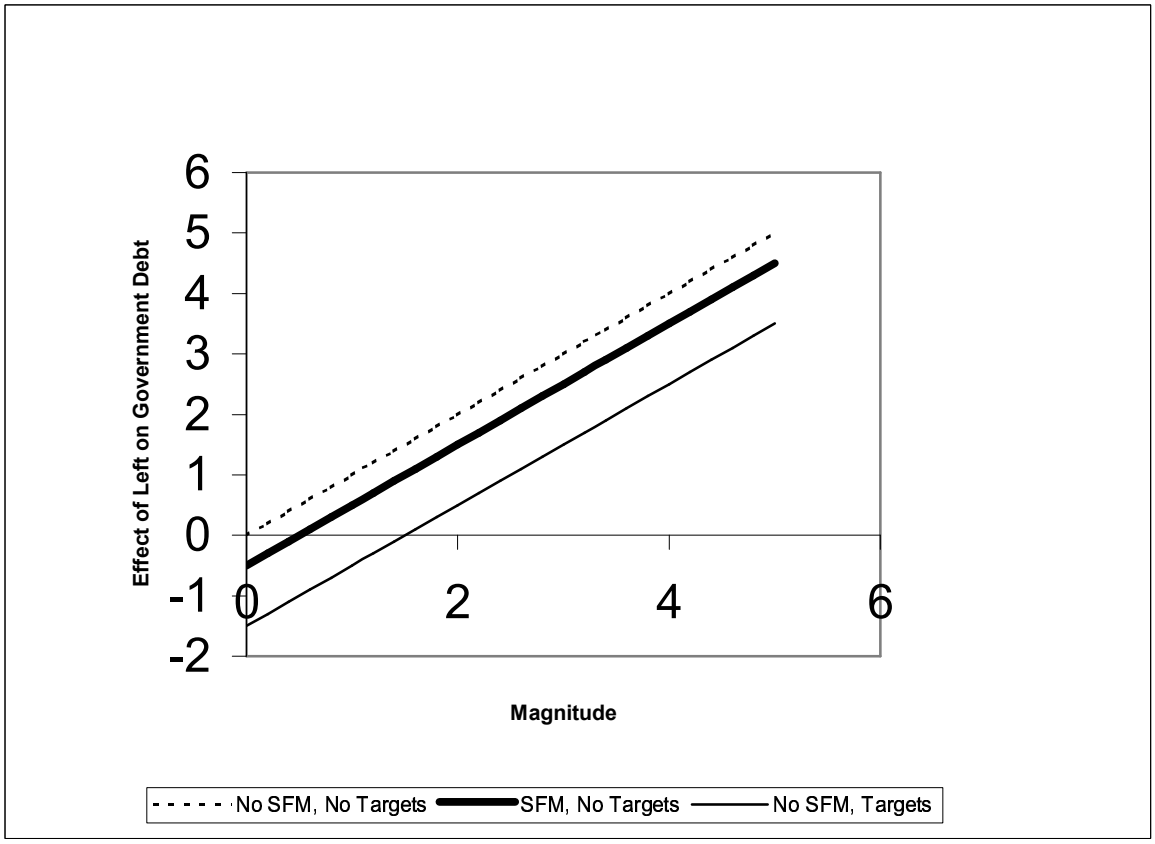
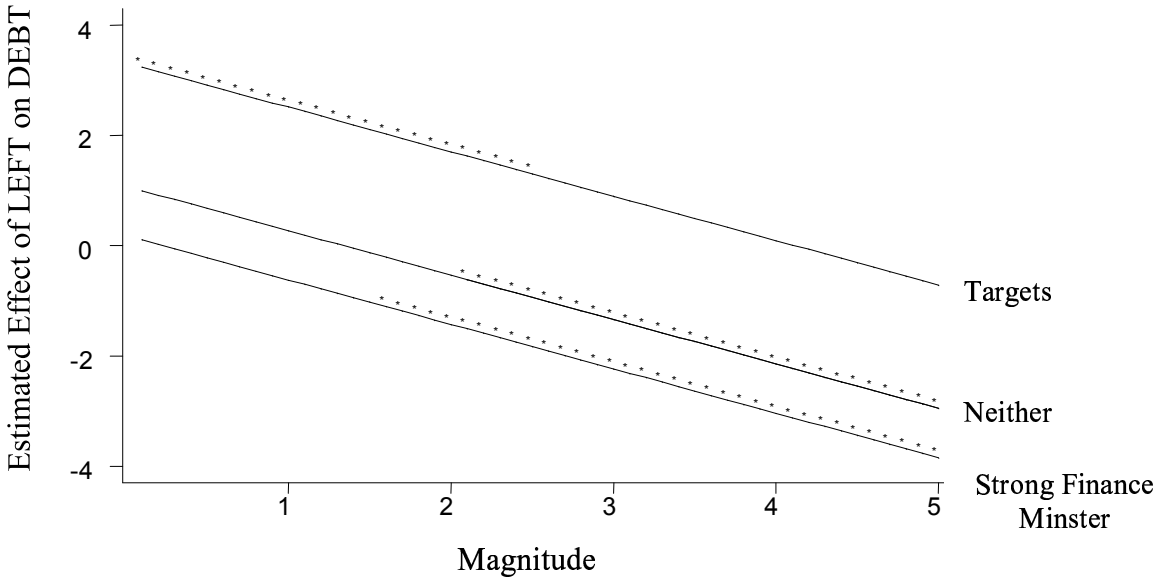
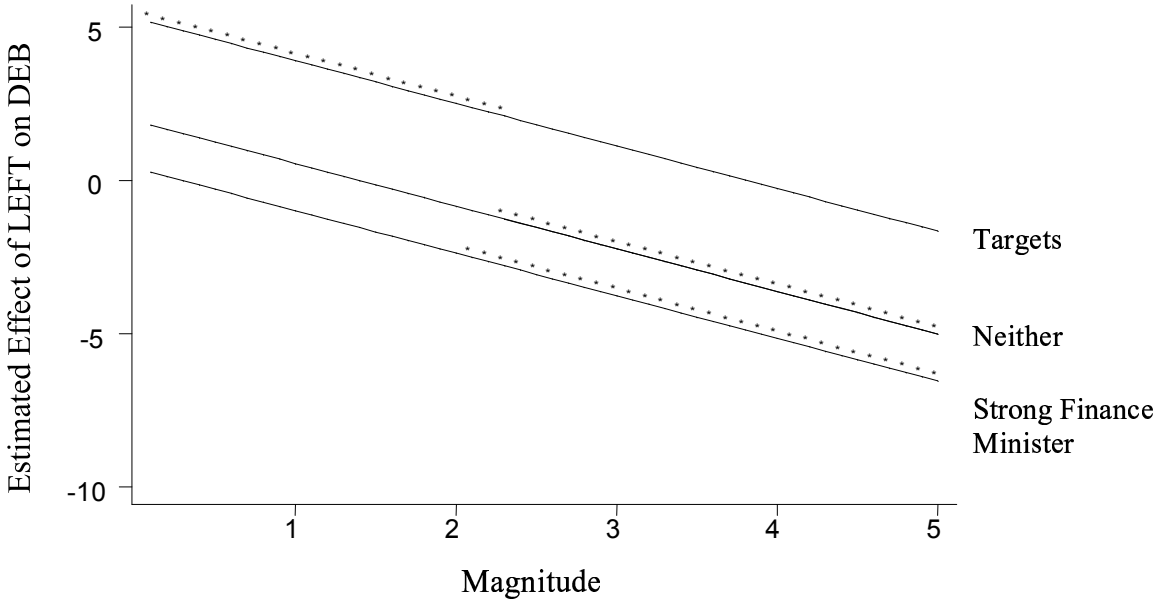


Figure 2a: The estimated conditional effect of an increase in LEFT (Woldendorp, Keman and Budge) on DEBT at different levels of logged district magnitude and under alternative fiscal institutions.



* indicates that the conditional coefficient is statistically significant at the 95% level.

Figure 2b: The estimated conditional effect of an increase in LEFT (Blais, Blake and Dion) on DEBT at different levels of logged district magnitude and under alternative fiscal institutions.



* indicates that the conditional coefficient is statistically significant at the 95% level.

Notes

[1]This notion of the democratic process is closely associated with the concept of party responsibility in analyses of American political parties. According to this concept, parties 'should' present alternative ideological positions preferred by different sections of the electorate, thereby giving voters a 'choice' rather than an 'echo' (Page 1978, Morton 1993, Monroe 1983).

[2]There is also theoretical and empirical evidence that electoral systems have a direct and unconditional effect on macroeconomic policy and outcomes (Milesi-Ferretti, Perotti & Rostagno 2001, Lizzeri & Persico 2001, Persson & Tabellini 1999, Persson 1999b, Persson & Tabellini 2000a, Persson & Tabellini 2000b, Myerson 1993). All of these studies posit that universal expenditures will be higher in proportional representation systems, whereas targeted expenditures are expected to be higher in plurality systems. Most of the models also predict that total government spending will be higher in plurality systems. We do not directly address this literature since we are specifically interested in the partisan effects of electoral systems. The literature mentioned above makes no distinction between politicians based on their ideological predilections; it simply focuses on how electoral systems shape a politician's need to use fiscal policy to get reelected.

[3]The median district magnitude represents the district magnitude of the median legislator. This is preferable to the average district magnitude since it offers a better measure of central tendency in non-normal distributions (Amorim Neto & Cox 1997). This measure is logged to capture the intuition that the marginal causal effect of a unit change in district magnitude is smaller when the district magnitude is large.

[4]The Maastricht Treaty imposed four convergence criteria that had to be met by those countries seeking to join the single currency. First, inflation rates could not be more than 1.5% above the average for the three countries with the lowest inflation rates; second, average nominal interest rates could not be more than 2% above those for the three countries with the lowest inflation rates; third, there could be no exchange rate realignments for at least two years; and fourth, the general government debt to GDP ratio could not be more than 3% and the gross debt to GDP ratio could not be more than 60%.

[5]One could examine the effect of partisanship on the actual mix of policy priorities within a government's budget. A problem with this is that the convergence criteria of EMU only include restrictions on the overall level of government deficits and debt. They place no other specific constraint on the types of fiscal policy that partisan governments can implement. Thus, an evaluation of fiscal policies other than those dealing with debt or deficits would not allow us to see whether EMU had damaged the democratic process by constraining partisan fiscal policy. We should note at this point that we did run additional tests using budget deficits, total government spending and total government revenues as alternative indicators of fiscal policy. The results were similar to those from our model dealing with

debt and are available from the authors on request. We would like to thank Geoffrey Garrett for providing the data necessary for this analysis.

[6]We are grateful to Mark Hallerberg for sharing his data. We supplemented his data with electoral system measures from Golder (2001). See the data appendix for a detailed description of the variables and their sources. Due to the pooled time-series-cross-sectional (TSCS) nature of our data, several methodological issues had to be dealt with (Beck & Katz 1995*a*, Beck & Katz 1995*b*, Beck & Katz 1998, Beck 2001). First, we include a lagged dependent variable to mitigate serial correlation among the error terms. Second, we use panel-corrected standard errors to take account of heteroskedastic errors. We also checked for fixed effects by estimating a model with country dummies. Our inferences were not affected. Another inferential threat arises from the potential non-stationarity of the dependent variable. Since the coefficient on the lagged dependent variable in each model is several standard deviations below one, a unit root does not characterize the dependent variable and our inferences are valid.

[7]There is some controversy about whether growth in GDP should be included as an independent variable since real GDP appears in the denominator on the left-hand side of the equation (Borelli & Royed 1995). A problem only arises if one views debt as a determinant of growth in GDP. Given that this is unlikely, we feel justified in including it as a control variable.

[8]Although Roubini and Sachs' claim has since been disputed by De Haan, Sturm and Beekhuis (1999), we include these control variables for government type.

[9]Column A uses data on all current European Union countries except Portugal. Column B uses data on all current European Union countries except Ireland, Luxembourg and Portugal. These countries were excluded because partisan data were not available from Woldendorp, Keman and Budge (1993, 1998) or Blais, Blake and Dion (1993). Some countries in our sample (Austria, Finland, Sweden) were not actually members of the EU between 1981-92. However, this is not a problem since our primary interest in in testing whether there were partisan differences in the fiscal policy of current members prior to EMU.

[10]However, the results of a joint significance test justify the inclusion of the interaction terms in our model. The hypothesis that the coefficients on LEFT*MAGNITUDE, LEFT*STRONG FINANCE MINISTER and LEFT*NEGOTIATED TARGETS are all zero can be rejected at the 99% level.

[11]We do not show the results from the remaining tests due to space constraints. However, they are all available from the authors on request.

References

Amorim Neto, Octavio & Gary Cox. 1997. "Electoral Institutions: Cleavage Structures, and the Number of Parties." *American Journal of Political Science* 41:149–174.

Beck, Neil. 2001. "Times-Series-Cross-Section Data: What have we learned in the past few year?" *Annual Review of Political Science* 4:271–293.

Beck, Neil & Jonathan Katz. 1995*a*. "Nuisance versus Substance: Specifying and Estimating Time-Series-Cross-Section Models." *Political Analysis* 6:1–36.

Beck, Neil & Jonathan Katz. 1995*b*. "What to do (and Not To Do) with Time-Series Cross-Section Data." *American Political Science Review* 89:634–647.

Beck, Neil & Jonathan Katz. 1998. "Taking Time Seriously: Time-Series-Cross-Section Analysis with a Binary Dependent Variable." *American Journal of Political Science* 42:1260–88.

Black, Duncan. 1958. *The Theory of Committees and Elections*. Cambridge: Cambridge University Press.

Blais, A., D. Blake & S. Dion. 1993. "Do Parties Make a Difference? Parties and the Size of Government in Liberal Democracies." *American Journal of Political Science* 37:40–62.

Borelli, Stephen & Terry Royed. 1995. "Government Strength and Budget Deficits in Advanced Democracies." *European Journal of Political Research* 28:225–260.

Cameron, David. 1978. "The Expansion of the Public Economy: A Comparative Analysis." *American Political Science Review* 72:1243–1261.

Castles, Francis. 1982. The Impact of Parties on Public Expenditures. In *The Impact of Parties*, ed. Francis Castles. London: Sage pp. 21–96.

Castles, Francis & Peter Mair. 1984. "Left-Right Political Scales: Some Expert Judgments." *European Journal of Political Research* 12:73–88.

Castles, Francis & R Mckinley. 1979. "Does Politics Matter? An Analysis of the Public Welfare Commitment in Advanced Democratic States." *European Journal of Political Research* 7:169–186.

Clark, William Roberts. forthcoming. *Capitalism, Not Globalism: Capital Mobility, Central Bank Independence and the Political Control of the Economy*. Ann Arbor: University of Michigan Press.

Clark, William Roberts & Mark Hallerberg. 2000. "Mobile Capital, Domestic Institutions, and Electorally Induced Monetary and Fiscal Policy." *American Political Science Review* 94:323–346.

Comiskey, Michael. 1993. "Electoral Competition and the Growth of Public Spending in 13 Industrial Democracies, 1950 to 1983." *Comparative Political Studies* 26:350–374.

Cox, Gary. 1987. "Electoral Equilibrium under Alternative Voting Institutions." *American Journal of Political Science* 31:82–108.

Cox, Gary. 1990. "Centripetal and Centrifugal Incentives in Electoral Systems." *American Journal of Political Science* 34:903–935.

Cox, Gary. 1990a. Multicandidate Spatial Competition. In *Advances in the Spatial Theory of Voting*, ed. James Enelow & Melvin Hinich. New York: Cambridge University Press pp. 179–198.

Cox, Gary. 1997. *Making Votes Count: Strategic Coordination in the World's Electoral Systems.* New York: Cambridge University Press.

Cox, Gary. 1999. "Electoral Rules and Electoral Coordination." *Annual Review of Political Science* pp. 145–161.

De Haan, J., J-E. Sturm & G. Beekhuis. 1999. "The Weak Government Thesis: Some New Evidence." *Public Choice* 101:163–176.

De Haan, Jakob & Jan-Egbert Sturm. 1994. "Political and Institutional Determinants of Fiscal Policy in the European Community." *Public Choice* 80:157–172.

De Haan, Jakob & Jan-Egbert Sturm. 1997. "Political and Economic Determinants of OECD Budget Deficits and Government Expenditures." *European Journal of Political Economy* 13:739–750.

Downs, Anthony. 1957. *An Economic Theory of Democracy.* New York: Harper and Row.

Duverger, Maurice. 1954. *Political Parties.* New York: Wiley.

Eaton, B. Curtis & Richard Lipsey. 1975. "The Principle of Minimum Differentiation Reconsidered: Some New Developments in the Theory of Spatial Competition." *Review of Economic Studies* 42:27–49.

Friedrich, Robert. 1982. "In Defense of Multiplicative Terms in Multiple Regression Equations." *American Journal of Political Science* .

Garrett, Geoffrey. 1998. *Partisan Politics in the Global Economy.* Cambridge: Cambridge University Press.

Gill, Jeff. 2001. "Interpreting Interactions and Interaction Hierarchies in Generalized Linear Models: Issues and Applications." Paper presented at the Annual Meeting of the American Political Science Association, San Francisco.

Golder, Matt. 2001. "Explaining Variation in the Electoral Success of Extreme Right Parties in Western Europe." Paper presented at the Annual Meeting of the Midwest Political Science Association, Chicago.

Gormley, Laurence & Jakob de Haan. 1996. "The Democratic Deficit of the European Central Bank." *European Law Review* pp. 95–112.

Greenberg, Joseph & Shlomo Weber. 1985. "Multiparty Equilibria under Proportional Representation." *American Political Science Review* 79:693–703.

Hahm, S., M. Kamlet & D. Mowery. 1996. "The Political Economy of Deficit Spending in Nine Industrialized Parliamentary Democracies - The Role of Fiscal Institutions." *Comparative Political Studies* 29:52–77.

Hahm, Sung Deuk. 1996. "The Political Economy of Deficit Spending: A Cross Comparison of Industrialized Democracies, 1955-90." *Environment and Planning C: Government and Policy* 14:227–250.

Hallerberg, Mark & Jürgen von Hagen. 1998. Electoral Institutions and the Budget Process. In *Democracy, Decentralization and Deficits in Latin America*, ed. Kiichiro Fukasaku & Ricardo Housmann. Paris: OECD pp. 65–94.

Hallerberg, Mark & Jürgen von Hagen. 1999. Electoral Institutions, Cabinet Negotiations and Budget Deficits within the European Union. In *Fiscal Institutions and Fiscal Performance*, ed. James Poterba & Jürgen von Hagen. Chicago: Univeristy of Chicago Press.

Hallerberg, Mark & Scott Basinger. 1998. "Internationalization and Changes in Tax Policy in OECD Countries: The Importance of Domestic Veto Players." *Comparative Political Studies* 31:321–353.

Hibbs, Douglas. 1977. "Political Parties and Macroeconomic Policy." *American Political Science Review* 71:1467–1487.

Hicks, Alexander & Duane Swank. 1984. "Governmental Redistribution in Rich Capitalist Democracies." *Policy Studies Journal* 13:265–286.

Hotelling, Harold. 1929. "Stability in Competition." *The Economic Journal* 39:41–57.

Huber, J., C. Ragin & J. Stephens. 1993. "Social-Democracy, Christian Democracy, Constitutional Structure, and the Welfare State." *American Journal of Sociology* 99:711–749.

Iversen, Torben. 2001. The Dynamics of Welfare State Expansion: Trade Openness, Deindustrialization, and Partisan Politics. In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford: Oxford University Press.

Laakso, Markku & Rein Taagepera. 1979. ""Effective" Number of Parties: A Measure with Application to Western Europe." *Comparative Political Studies* pp. 3–27.

Lijphart, Arendt. 1994. *Electoral Systems and Party Systems: A Study of Twenty-Seven Democracies, 1945-90*. Oxford: Oxford University Press.

Lizzeri, Alessandro & Nicola Persico. 2001. "The Provision of Public Goods under Alternative Electoral Incentives." *American Economic Review* 91:225–245.

Mackie, Thomas & Richard Rose. 1991. *The International Almanac of Electoral History*. London: Macmillan.

Milesi-Ferretti, G., R. Perotti & M. Rostagno. 2001. "Electoral Systems and Public Spending." *International Monetary Fund Working Paper* WP/01/22.

Monroe, Alan. 1983. "American Party Platforms and Public Opinion." *American Journal of Political Science* 27:27–42.

Morton, Rebecca. 1993. "Incomplete Information and Ideological Explanations of Platform Divergence." *American Political Science Review* 87:382–392.

Myerson, Roger. 1993. "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems." *American Political Science Review* 87:856–869.

Oatley, Thomas. 1999. "How Constraining is Capital Mobility? The Partisan Hypothesis in an Open Economy." *American Journal of Political Science* 43:1003–1027.

Page, Benjamin. 1978. *Choices and Echoes in Presidential Elections: Rational Man and Electoral Democracy*. Chicago: University of Chicago Press.

Pampel, Fred & John Williamson. 1988. "Welfare Spending in Advanced Industrial Democracies, 1950-1980." *American Journal of Sociology* 93:1424–1456.

Paulson, Andrew. 1997. "Cumulative Regional Decline, Institutional Inadequacy and the 'Democratic Deficit': Is European Monetary Union Economically and Politically Sustainable?" Working Paper No. 209, Economics Working Paper Archive at WUSTL.

Persson, Torsten. 1999b. Political Economics and Public Finance. In *Handbook of Public Economies Volume 3*, ed. Alan Auerbach & Martin Feldstein. New York: North-Holland.

Persson, Torsten & Guido Tabellini. 1999. "The Size and Scope of Government: Comparative Politics and Rational Politicians." *European Economic Review* 43:699–735.

Persson, Torsten & Guido Tabellini. 2000a. *Political Economics*. Cambridge: MIT Press.

Persson, Torsten & Guido Tabellini. 2000b. "Political Institutions and Policy Outcomes: What are the Stylized Facts?" Mimeo, Bocconi University.

Przeworski, Adam & Michael Wallerstein. 1988. "Structural Dependence of the State on Capital." *American Political Science Review* 82:11–29.

Rice, Tom. 1986. "The Determinants of Western European Government Growth, 1950-1980." *Comparative Political Studies* 19:233–259.

Ross, Fiona. 1997. "Cutting Public Expenditures in Advanced Industrial Democracies: The Importance of Avoiding Blame." *Governance: An International Journal of Policy and Administration* 10:175–200.

Roubini, Nouriel & Jeffrey Sachs. 1989. "Political and Economic Determinants of Budget Deficits in the Industrial Democracies." *European Economic Review* 33:903–933.

Shepsle, Kenneth & R. Cohen. 1990. Multiparty Competition, Entry and Entry Deterrence in Spatial Models of Elections. In *Advances in the Spatial Theory of Voting*, ed. James Enelow & Melvin Hinich. New York: Cambridge University Press pp. 12–45.

Smithies, Arthur. 1941. "Optimum Location in Spatial Competition." *Journal of Political Economy* 49:423–439.

Stephens, John. 1979. *The Transition from Capitalism and Socialism*. London: MacMillan.

Swank, Duane. 1988. "The Political-Economy of Government Domestic Expenditure in the Affluent Democracies, 1960-80." *American Journal of Political Science* 32:1120–1150.

Swank, Duane. 1992. "Politics and the Structural Dependence of the State in Democratic Capitalist Nations." *American Political Science Review* 86:38–54.

Taagepera, Rein & Matthew Shugart. 1989. *Seats and Votes: The Effects and Determinants of Electoral Systems*. New Haven: Yale University Press.

Teivainen, Teivo. 1997. The Independence of the European Central Bank. In *The Politics of Economic and Monetary Union*, ed. Petri Minkkinen & Heikki Patomaki. London: Kluwer pp. 54–74.

Verdun, Amy. 1998. "The Institutional Design of EMU: A Democratic Deficit?" *Journal of Public Policy* 18:107–132.

Woldendorp, J., H. Keman & I. Budge. 1993. "Special Issue: Political Data 1945-90." *European Journal of Political Research* 24:1–119.

Woldendorp, J., H. Keman & I. Budge. 1998. "Party Government in 20 Democracies: An Update (1990-1995)." *European Journal of Political Research* 33:125–164.