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Partisan Differences and the Interventionist State in Advanced Democracies

Abstract

We present new evidence on whether political parties still matter in economic policy-making. We investigate four policy instruments (changes in product market regulation (PMR), subsidies, business taxation, social spending) in 21 OECD countries between 1980 and 2015. We systematically consider how cabinet duration and the challenges of globalization, the EU and economic problems (debt, unemployment, economic growth) condition partisan differences. Partisan differences only really make themselves felt after about one term in office. Moreover, with the exception of PMR, partisan differences tend to become more pronounced as globalization increases while European integration does not condition partisan effects. The conditioning effect of domestic economic problems on partisan differences depends on a policy instrument's salience. In highly salient issue areas (social expenditure, corporate taxation), we only find partisan differences when problems are low; in contrast, economic problems emphasize partisan differences in non-salient issue areas (PMR, subsidies).

Keywords: Business Taxation, Economic Policy, Globalization, Liberalization, Political Parties, Social Policy

JEL classification: H11, H25, H53,

1. Introduction

Government intervention in the economy in the advanced democracies has changed tremendously in the last three decades: State owned enterprises have been privatized and product markets liberalized, subsidies have been reduced and statutory business tax rates slashed and even the growth of government spending has come to a halt – at least until the financial crisis hit these countries in 2008 (cf. the overview in Zohlnhöfer *et al.*, 2017). (← p. 969)

While this retreat of the interventionist state has been the result of decisions taken by governments that are composed of political parties, it has been questioned in the literature that the partisan complexion of governments still plays a decisive role in economic intervention. Rather, globalization (e.g. Schneider *et al.*, 2005; Jahn, 2006), Europeanization (e.g. Busemeyer, 2010; Schuster *et al.*, 2013) and the growing problems of slow growth, high unemployment and rising debt (e.g. Zohlnhöfer *et al.*, 2008; Swank, 2016) are argued to incite a liberalization of the domestic economy. These challenges, so the argument goes, restrict the menu of policy choices to such an extent that the ideology of government parties does not matter anymore. Thus, although parties might want to make a difference they cannot do so anymore, given the circumstances.

In this paper, we present new evidence on whether political parties still matter in government intervention. We go beyond much of the existing literature in at least three ways. First, we do not restrict our analysis to only one policy area. Rather, we investigate partisan differences in four different fields of economic intervention: product market regulation (PMR), subsidies, business taxation and social spending. Thus, we provide a more complete picture of the partisan politics of economic intervention than is available in the literature so far. Second, we systematically consider how the challenges mentioned above, namely globalization, the

European Union (EU) and economic problems like public debt, rising unemployment and sluggish economic growth, condition partisan differences. Thus, we provide a systematic answer to the question whether partisan differences in government intervention decrease as globalization and economic and financial problems increase and as countries join the EU. Moreover, we provide detailed theoretical accounts of how different domestic economic problems condition partisan differences in different fields of the interventionist state, something that has not been done in the literature to the best of our knowledge. Third, we use governments, rather than country-years, as units of observation. Although it has been argued in the literature that employing governments as units of observation is a more appropriate way to test partisan differences than using country-years (see the pioneering study by Boix, 1997; Schmitt, 2016; Garritzmann and Seng, 2016; Horn, 2017), there are hardly any studies on the dependent variables under investigation here that have made use of this technique.

We proceed as follows: After providing a brief literature overview we discuss theoretically why parties could make a difference and why these differences could be conditioned by changes in the international political economy (globalization, European integration) and domestic economic problems (sluggish growth, rising unemployment, public debt). Next, we discuss data and methods and present the results of our empirical analyses. The final section concludes.

2. Literature review

There exists a rich literature on the various policy fields analyzed here and partisan differences figure prominently in this literature. Nonetheless, results are quite mixed (see Potrafke, 2016). In their recent literature review, Zohlnhöfer et al. (2017) report that around half of the studies on corporate taxation find partisan differences (e.g. Clausing, 2008;

Plümper *et al.*, 2009), while others fail to detect such effects (e.g. Heinemann *et al.*, 2010; Swank, 2016) or report that partisan differences have diminished over time (Osterloh and Debus, 2012). Results are comparable for PMR and social expenditure for which slightly less than (**← p. 970**) half of the studies surveyed by Zohlnhöfer *et al.* (2017) support partisan theory (e.g. Potrafke 2010; Castles and Obinger, 2007; Jensen and Seeberg 2015) while others fail to find partisan differences (Heinemann, 2007; Garrett and Mitchell, 2001; Emmenegger, 2007) or report that partisan effects have vanished (Siegel, 2007; Potrafke 2009). Jahn (2006) even concludes that the signs of left and centrist parties reversed in the course of the 1990s (see also Allan and Scruggs, 2004). The picture is similarly diverse for subsidies for which some authors report traditional partisan effects at least until the 1980s (Obinger and Zohlnhöfer, 2007), others find no partisan differences (e.g. Schuster *et al.*, 2013) while according to still others right parties even spend more on subsidies than left parties (Rickard 2012; Zahariadis 2010b). Thus, there is tremendous disagreement in the literature regarding the effect of government partisanship for all four policy instruments under review.

At the same time, only very few studies compare different policy instruments (see, for example, Garrett and Mitchell, 2001; Li and Xu, 2002; Schuster *et al.*, 2013; Belloc *et al.*, 2014). Hence, we know very little about whether the same dynamics drive the various interventionist policies. Moreover, the few studies that compare different policy instruments only rarely focus on partisan differences. Hence, even if there existed agreement in the literature about the role of political parties as determinant of a specific policy instrument, we would be unable to say whether or not this finding can be generalized to other economic policy instruments. Thus, the lack of studies comparing economic policy instruments with a focus on partisan differences is a clear obstacle for a better understanding of how partisan differences shape government intervention in the economy in general.

Moreover, partisan differences may be conditional upon specific circumstances. Emmenegger (2007), for example, reports that partisan effects on social expenditure are conditional upon the time a party is in government: Only when governments are in office for a certain period of time are they able to make a difference. Similarly, the declining relevance of parties over time that some studies find is sometimes argued to be a result of processes of globalization and European integration (e.g. Obinger and Zohlnhöfer 2007; Osterloh and Debus, 2012). In addition, Pierson's (2001) argument about rising domestic problems in times of permanent austerity implies that partisan differences decrease as problems grow.

Surprisingly little research exists, however, that empirically tests conditional effects. For example, Emmenegger's (2007) study is the only one to test the conditional effect of the length a government is in office on partisan effects – and he only does so for social expenditure and overall government spending. Similarly, although most of the relevant studies control for globalization, European integration, or economic problems, only few of them investigate whether these factors condition partisan effects in economic intervention. For globalization, Garrett's (1998) pioneering study finds that partisan differences generally increased as globalization grew. This holds for government spending, but also for specific areas of spending like income transfers and subsidies, and for the progressivity of tax systems. While Garrett's study is a hallmark in many respects, it only looks at left-labor power rather than the partisan composition of government which makes it impossible to disentangle effects of partisan politics and union strength. Moreover, his evidence is based on only 14 countries and the period of observation ends in 1990, thus not covering those years in which globalization started in earnest (cf. Busemeyer 2009).

Nonetheless, Kwon and Pontusson (2010) essentially corroborate Garrett's findings for social expenditure for more recent years, as they report that globalization can lead to an intensification of partisan differences when unions are strong. Potrafke (2009), also looking

(← p. 971) at social expenditure, concurs insofar as he at least finds no evidence for globalization leading to the disappearance of partisan differences. In contrast, Swank's (2013, p.322) results suggest "that social democratic parties had mildly diminishing effects" on welfare state generosity as globalization proceeded. Similarly, Jensen (2012) provides evidence that partisan differences regarding unemployment benefits decrease as globalization increases.

The conditional effect of globalization is hardly tested for other economic policy instruments. One exception is Obinger *et al.* (2014), who look at state ownership and report that globalization does not condition partisan effects. Regarding European integration, Obinger *et al.* (2014) show that the dynamics of the single market constrained partisan differences; at the same time, the run-up to European Monetary Union even increased partisan differences. For the policy instruments under investigation here, conditioning effects of the EU have not been tested at all in the literature hitherto.

Finally, the conditioning effect of socio-economic problems on partisan differences has rarely been tested, too. Amable *et al.* (2006) look at how economic shocks and the position of governments interact to affect social expenditure and health care benefit generosity. Their findings suggest that partisan differences tend to grow in response to a shock. In contrast, Jensen (2012), looking at unemployment benefits, reports that high unemployment reduces partisan differences. Thus, many of the interactions of interest have not been tested in the literature yet, and to the extent that they have, the results are ambiguous.

In sum, the state of the art currently is characterized by fundamental disagreement on the relevance of governing parties in each individual policy field; by a lack of research that systematically investigates whether the findings for one policy instrument hold in a different policy field; and by the failure to systematically take into account the possibility that partisan

effects are conditional upon globalization, Europeanization, the time a party remains in office and socio-economic problems. In this paper, we seek to address these deficiencies first by using cabinets as the unit of analysis which is the most appropriate way to test partisan differences and thus promises to produce more reliable results; second by comparing four economic policy instruments which allows us to make statements about the generalizability of partisan differences in economic policy; and third by systematically testing conditional effects for cabinet duration, globalization, Europeanization and socio-economic problems.

3. Theory and Hypotheses

Historically, the socio-economic cleavage has been at the heart of electoral competition in most democracies. Social-democratic or labor parties have argued for a strong role of government in the economy in order to control market forces, reduce unemployment and redistribute income (Schmidt, 1996). Thus, left parties have traditionally been expected to advocate a generous welfare state that would lead to high social spending, high business tax rates to fund spending, strict regulations of product markets to fight market failures, high subsidies that would help ailing industries and save jobs and a high level of state ownership. In contrast, bourgeois parties are often seen as much less enthusiastic about government intervention in the economy. Instead, these parties are assumed to believe that the market mechanism is effective and efficient in most respects and therefore should be interfered with as little as possible. As a consequence, these parties should favor less social spending, fewer market regulations, less subsidies and less state owned enterprises as well as lower business tax rates. (← p. 972)

Thus, we hypothesize:

H1: Left parties pursue more interventionist policies than right parties.

Although this hypothesis is often tested empirically in the literature, it needs some differentiation in two respects, namely regarding the policy instrument under investigation and the party families for which the hypothesis should hold. While the theoretical expectations for most of the above policy instruments are relatively uncontroversial in the literature, there is disagreement regarding the effect of partisanship on subsidies. Some authors, in line with the above argument, expect right parties to reduce subsidies. According to this line of reasoning, left parties hand out more subsidies in order to save jobs, while right parties tend to rely more on the market. This traditional argument has been challenged, however. Recently, some authors have contended that right parties have incentives to increase rather than reduce state aid. These scholars argue that subsidies are transfers to business which thus help right parties' core constituency. In contrast, workers, as (one) core clientele of left parties, are more interested in direct benefits like unemployment benefits in case their company runs into trouble (Zahariadis, 2010b, pp. 444-445; cf. also Rickard 2012, p. 783). Thus, we can test two competing hypotheses for subsidies, H1 above and its alternative according to which:

H1a: Subsidies are higher under right governments than under left governments.

Moreover, as Christian democrats are the major bourgeois parties in a number of West European countries, they are often subsumed as right governing parties. Nonetheless, these parties' programmatic positions on economic policies cannot be expected to resemble the ones of liberal or conservative parties, mainly because a significant part of their electorate used to come from the working class. While their economic policy position thus is expected to be less liberal than that of liberal or conservative parties, it will be more liberal than that of social democrats as Christian democrats have always looked for cross-class compromises and some kind of third way between capitalism and socialism (Kalyvas and van Kersbergen, 2010). As a consequence of this middle position, we posit:

H1b: Christian democrats do not have a significant effect on government intervention.

Similarly, the electorate of right populist parties which have recently grown in importance includes many working class voters, typically those that can be described as globalization losers. As a consequence, one should expect that right populist parties favor interventionist policies that protect citizens from the forces of globalization or compensate for the potential risk of internationalization (Zaslove, 2009; Schumacher and van Kersbergen, 2016).

Therefore, social expenditure and subsidies¹ should increase as right populist parties join a government. It is less clear, however, which policy positions these parties hold with regard to corporate taxation and PMR. While some authors argue that right populist parties tend to hold liberal economic policy positions (cf. de Lange, 2007), others maintain that these (← p. 973) parties might not be particularly interested in these policy instruments (Rovny, 2013) and could thus accept their coalition partners' policy ideas here in exchange for a more restrictive immigration policy which is their core issue (cf. Akkerman and de Lange, 2012, p. 580).

Nonetheless, as the right populist parties that have come to power have done so in coalitions with bourgeois parties, this would also lead us to expect that right populist parties moderately liberalize in corporate taxation and PMR:

H1c: Right populist parties have a positive effect on welfare spending and subsidies and a negative (or insignificant) effect on corporate taxation and PMR.

Governing parties might need time to make a difference, however. Obviously, bills need to be passed by parliament which takes some time, particularly if consultations with interest groups take place or the agreement of veto players needs to be obtained. More importantly, agenda space is limited and therefore not all reforms can be adopted at the same time. Finally, as Emmenegger (2007, p. 84) points out, new governments have to overcome resistance from

inside ministerial bureaucracy after a change of government which might cost time.

Therefore, we argue:

H2: Partisan differences increase with the time a party remains in office.

While it is often expected that parties want to make a difference, many authors doubt that they still can pursue different economic policies because their leeway may be circumscribed significantly by changes in the international political economy like globalization and Europeanization, but also by the severity of problems (see for example Strange, 1995; Scharpf, 2000; Pierson, 2001).

For example, efficiency theorists argue that globalization offers capital owners an exit option. Thus, if business taxes are high or regulations strict in a country, direct investment will go to places where conditions are more favorable. Similarly, portfolio investment will avoid countries with high public debt or ask for much higher interest rates as a risk premium. Thus, governments will need to offer business-friendly conditions in order to incite investments (Scharpf, 2000; Busemeyer, 2009). Consequently, they can be expected to liberalize markets and reduce corporate taxes but they might also cut spending in order to reduce public debt. As a consequence, the choices available to governments are likely to be highly constrained by globalization and all parties have to resort to the same kind of liberal economic policies (Strange, 1995). Thus, partisan differences disappear:

H3a: As globalization increases, partisan differences decrease.

Europeanization might reinforce these effects as the EU can force its members to liberalize markets and cut subsidies under the Single Market Program, and the Maastricht deficit criteria provided further incentives for a reduction of spending (cf. Scharpf, 1999; Schneider and Häge, 2008). Thus, partisan differences in government intervention are particularly unlikely in EU member states because governments are forced to deregulate their markets and formally

restricted to pay state aid to companies, and they have even stronger incentives to reduce spending and cut taxes in the context of the Maastricht criteria and the single market.

Therefore, we hypothesize: (← p. 974)

H3b: In member states of the European Union, partisan differences decrease.

At least with regard to globalization, however, liberalization is not the only possible response according to compensation scholars (Boix, 1997 and Garrett, 1998). For example, some authors argue that globalization increases the (perceived) economic risk of certain groups of the electorate and these vulnerable groups will demand from the government to be protected from these risks (Walter, 2017). It is plausible to assume that these vulnerable groups will belong to the core electorate of left (and right populist) parties, which gives these parties strong incentives to be receptive to demands for more government intervention. In contrast, vulnerable groups are unlikely to vote for right parties to any substantial extent. Thus, right parties should not be eager to protect these groups by government intervention in the economy; to the contrary, right parties might take globalization as a justification for economic liberalization. This line of reasoning would lead us to expect that globalization reinforces, rather than reduces partisan differences:

H3c: As globalization increases, partisan differences increase.

In a similar way, economic problems might condition partisan effects. Tufte (1978, p. 102), for example, suggests that a “crisis area of economic policy dominates the priorities sought by the party platform.” Thus, if debt is high, governments might need to cut spending and cannot afford to reduce taxes, regardless of partisan preferences. Similarly, any party could turn to product market liberalization or business tax cuts if confronted with sluggish economic growth or high unemployment. Thus, we should expect that partisan differences disappear in times of economic dire straits.

H4a: As economic growth slows down, unemployment increases and public debt rises, partisan differences decrease.

Again, one could also make the opposite argument, however (for example, Kwon and Pontusson, 2010, p. 256). According to that view, parties should resort to their core policy ideas precisely in times of economic problems. Thus, if parties indeed have differing policy positions regarding government intervention and different views about how the economy works, then these different ideas should also inform their responses to mounting economic problems. That would lead us to expect that

H4b: Partisan differences increase as economic growth slows down, unemployment increases and public debt rises.

While hypotheses 4a and 4b seem to contradict each other, they might be reconcilable if we refine the argument. We suggest that some problems lead to more pronounced partisan differences in some issue areas while other problems lead to the disappearance of effects of political parties for some other policy instruments. The question then becomes which problems lead to the accentuation (or disappearance) of partisan differences in which issue area?

We argue that the different public salience of the policy instruments under investigation plays an important role in this regard. In general, social policy and business taxation are expected to be more salient among voters than the liberalization of product markets or (← p. 975) changes in subsidy spending.² Parties have been found to be more likely to follow public opinion as salience increases (Soroka and Wlezien, 2010). A reason for this might be that a party holding a policy position that deviates from the majority of the voters in a highly salient issue area runs a substantial risk of losing votes if it adopts its policy preference. Thus, all parties are likely to take positions close to the median voter in highly salient issue areas like

welfare spending and corporate taxation. This logic is reinforced in times of crisis. While voters might not care too much for the economic policies of a government as long as the economy is booming, the electorate is likely to pay close attention to government intervention in the economy – and particularly to the highly salient issues of social spending and corporate taxation – under economic dire straits. Therefore, we assume that hypothesis 4a according to which partisan differences decrease as economic problems grow should hold for corporate taxation and welfare spending.

In contrast, if voters hardly care for a specific policy, as can be assumed to be the case for subsidies and PMR, even in times of crisis parties are unconstrained by public opinion to adopt their most preferred policy. Take product market liberalization as an example, a policy that can be expected to be preferred by right parties. Under conditions of low or falling unemployment and high growth, right governments do not have strong incentives to deregulate – particularly as this policy could in principle hurt some domestic companies which usually belong to the core supporters of bourgeois parties. When growth starts to slow down and unemployment is high, however, right, rather than left governing parties might deem deregulation to be an adequate response to these problems and, given the low salience of the issue area, they might be willing to adopt these reforms – while left parties can be expected to focus on aggregate demand in these situations and do not focus on deregulation. Therefore, partisan differences with regard to the liberalization of product markets should be more pronounced if unemployment is high and growth slow (hypothesis 4b). In contrast, there are not many reasons to believe that debt will drive PMR because deregulation is unlikely to have immediate budgetary effects. Therefore, we should not expect public debt to moderate partisan effects regarding this policy instrument.

[Insert table 1 here

Table 1: Expected conditional effects of domestic economic problems on partisan differences]

Subsidies are hypothesized to display still differing patterns: Mostly because it is not clear theoretically whether parties should matter for subsidy spending at all, we do not expect conditioning effects of unemployment or growth on subsidy spending either. In contrast, we do expect such effects for debt. If debt is high, governments are likely to engage in budget consolidation. To reduce debt, governments can increase revenues or cut spending. Since right parties generally favor a low level of taxation, they are probably less willing than left parties to achieve a reduction of public debt via tax hikes. This leaves right parties with a more pressing demand than left parties to cut spending. Tellingly, research on budget consolidation shows that subsidies are a key spending item that is regularly and substantially cut during budget consolidations (Wagschal and Wenzelburger, 2008) – probably because these cuts are much less unpopular and much less salient than reductions in other spending categories, most notably welfare spending. Moreover, many economists argue that subsidies, by leading to an inefficient allocation of resources, produce distorting effects (Obinger and Zohlnhöfer, 2007, p. 198). Thus, all parties might be willing to cut subsidies if they have to reduce expenditure, but as right parties have a higher need to do so due to their (← p. 976) unwillingness to increase taxes, they might slash subsidy spending significantly more than left parties under conditions of high public debt.

Our theoretical expectations for the conditional effects of economic growth, unemployment and debt on partisan effects regarding corporate taxation, social spending, PMR and subsidies are summarized in table 1.

Table 1: Expected conditional effects of domestic economic problems on partisan differences

	Growth	Unemployment	Debt
Corporate taxation	Partisan differences when growth is high	Partisan differences when unemployment is low (or no conditional effect)	Partisan differences when debt is low
Social expenditure	No conditional effect	Partisan differences when unemployment is low or falling	Partisan differences when debt is low
Product market regulation	Partisan differences when growth is low	Partisan differences when unemployment is high or rising	No conditional effect
Subsidies	No conditional effect	No conditional effect	Partisan difference when debt is high

4. Data and Methods

Government intervention in the economy can be understood as a bundle of different policies that interfere with market processes and that are meant to correct market outcomes and improve a country's economic situation. We suggest subsuming four policy instruments under this definition. To begin with, governments intervene in the economy by regulating markets and by subsidizing enterprises. Therefore, our first indicator is the OECD index of PMR. This index ranges from 1 to 6 and summarizes regulatory provisions in seven central sectors (telecommunications, electricity, gas, post, rail, air passenger transport, and road). In addition, we look at subsidy spending as percentage of GDP. Moreover, business taxation was often used to incite and target investment (Swank, 2016) and thus has to be considered as a part of the interventionist toolkit, too. We use the statutory corporate tax rate as indicator here. Moreover, there is more to government intervention than economic policy. Rather, social

policy is certainly another important aspect of how governments intervene in the economy (Höpner *et al.*, 2011) as social policies have numerous economic policy consequences from wage setting to aggregate demand. Therefore, we include social expenditure as a percentage of GDP. Privatization would be a fifth field of economic intervention worth investigating. We refrain from looking at this indicator, however, because, on the one hand, it has been extensively analyzed with respect to our research question (Obinger *et al.*, 2014; 2016); on the other hand, comprehensive data on privatization are only available until 2007.

Our analysis thus spans various aspects of government intervention: While subsidies and social spending are expenditure indicators, we also look at revenues (corporate taxation) and regulation (PMR). Moreover, social spending, and to some extent also subsidies, are (← p. 977) mostly compensatory, whereas corporate tax cuts and deregulation are concerned with inciting economic activity. Finally, social spending and business taxation are highly salient issues while PMR and subsidies are usually decided outside the public spotlight.

In each of our four dimensions of the interventionist state, we use the difference of the respective indicator (social spending, subsidies, corporate income tax rate and PMR) between the last and the first year of a particular cabinet, i.e. the indicators of our dependent variables are measured in differences. This enables us to analyze whether government intervention varies according to partisan differences across countries.

To capture partisan effects we follow the approach proposed by Schmitt (2016), Garritzmann and Seng (2016) and Horn (2017) using cabinets instead of country-years as units of analysis in 21 OECD-countries from 1980 to 2015.³ The cabinet approach is particularly appropriate when estimating partisan effects since it avoids or marginalizes some of the methodological problems of the standard time-series cross-section (TSCS) approach (for a critical discussion of standard TSCS estimation techniques cf. Kittel, 1999; Kittel and Winner, 2005; Plümper *et*

al., 2005; Wilson and Butler, 2007).⁴ Cabinets are defined as governments “with the same party composition (even if there are new elections or the prime minister changes but is of the same party)” (Boix, 1997, p. 483). If the strength of the coalition partners in the cabinet changes, we count it as a new cabinet even though the cabinet encompasses the same parties. For example, the German coalition of Christian democrats and liberals under Chancellor Helmut Kohl lasted from 1982 to 1998. However, the cabinet shares held by the coalition partners changed after each election. Therefore, we count four cabinets under Chancellor Kohl.⁵ All cabinets that have been in power less than one year are excluded since short-term cabinets such as caretaker governments are typically not able to quickly implement policies. The starting and end points of each government are based on the years in which the cabinet has been in power for a period of at least six months. For example, if a cabinet took office in April 2003, the starting year is 2003. However, where a cabinet took power in September 2003, the starting year would be 2004. If the year in which the cabinet comes to power is the same as the year of cabinet change or government break-down, the case drops out of the sample. In total, we have 142 cabinets in our sample.

To capture *partisan effects*, we use the cabinet seats held by Social Democratic and communist parties (*Left Government*), by secular conservative and liberal parties (*Right government*), by Christian Democratic parties and by Right populist parties. We deliberately do not use data on policy positions of political parties (like CMP data), as we are interested in the question whether parties make a difference, for example in times of globalization or under domestic economic constraints, and using data on party positions does not allow answering this question. A significant coefficient of an indicator of party positions does tell us that what parties do is related to what parties say, but it does not allow us to tell whether parties say – and do – different things. Thus, taking partisan positions as our central (← p. 978)

independent variable would not be the appropriate empirical translation of our theoretical interest.

Furthermore, we include a set of control variables and moderator variables when testing the effects different parties have on economic policies. One central independent variable is globalization. We measure *globalization* as the sum of exports and imports in percent of GDP. Additionally, we include a dummy variable which is coded 1 if a country is member of the European Union and 0 otherwise.

Moreover, economic intervention should systematically vary with the domestic economic situation. In addition to the variables discussed as conditioning partisan effects (*unemployment rate, economic growth, public debt*), we include the share of the *elderly population* as a control variable to measure demands and problem pressure arising from the demographic structure of a society. Moreover, the *financial crisis* has strongly influenced the economic and financial situation in many countries. Therefore, we include a dummy variable which is coded 1 if a cabinet ended after 2009 and 0 otherwise.

In addition, labor unions are typically opponents of reducing government intervention. Therefore, we hypothesize that a high *union density* (net union membership in relation to the total number of employees) should be associated with a high level of government intervention. Since our units of observation are cabinets, we have to control for the *cabinet length*. Stable governments are expected to be better able to implement policies according to their preferences than short-lasting cabinets. Lastly, the policy a government implements during a cabinet period depends on the point of departure. We therefore include the level of our dependent variable at the beginning of the cabinet (*start value*).

With the exception of our partisan variables, the start values of our dependent variables, the cabinet length, and the variable capturing the financial crisis, all independent variables refer to

the first half of the cabinet period in order to avoid endogeneity problems. For example, for a cabinet in office from 2000 to 2006, the values of the independent variables reflect averages of the years 2000 to 2003. A table including the basic descriptive statistics as well as data sources is included in appendix 2 (table A1).

We employ identical specifications for each dependent variable to maximize comparability. All models are estimated with Eicker-White-standard errors clustered by country. We apply a two-step strategy. In the first step, we test unconditional partisan effects (tables 2 and 3)⁶ and in a second step, we include interaction terms analyzing whether partisan effects depend on the cabinet length, the domestic economic situation, EU-membership or the extent to which a country's economy is globalized.⁷ Note that each interaction term is (**← p. 979**) included in a separate model due to multicollinearity.⁸ Moreover, we present a number of robustness checks at the end of the next section.

Table 2: Partisan Effects and the Interventionist State in Four Dimensions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Social Expenditure		Product Market Regulation		Subsidies		Corporate Income Tax	
VARIABLES	LEFT	RIGHT	LEFT	RIGHT	LEFT	RIGHT	LEFT	RIGHT
Start Value	-0.136*** (0.0266)	-0.143*** (0.0302)	-0.0360 (0.0291)	-0.0401 (0.0285)	-0.124*** (0.0399)	-0.127*** (0.0378)	-0.210*** (0.0374)	-0.216*** (0.0357)
EU	0.426 (0.297)	0.406 (0.302)	-0.104* (0.0511)	-0.111** (0.0502)	-0.212* (0.119)	-0.216* (0.119)	1.940*** (0.673)	1.922*** (0.662)
Δ Globalization	-0.0667** (0.0262)	-0.0680** (0.0261)	-0.00759** (0.00338)	-0.00844** (0.00345)	-0.00450 (0.00665)	-0.00463 (0.00659)	-0.0193 (0.0651)	-0.0262 (0.0660)
Globalization	-0.00267 (0.00294)	-0.00258 (0.00281)	-0.000627 (0.000724)	-0.000787 (0.000695)	0.00183 (0.00116)	0.00186 (0.00114)	-0.0381** (0.0151)	-0.0400** (0.0152)
Δ Unemployment	0.283** (0.127)	0.270* (0.130)	-0.0388 (0.0282)	-0.0443 (0.0274)	-0.000974 (0.0239)	-0.00146 (0.0254)	0.206 (0.182)	0.149 (0.195)
GDP Growth	0.0176 (0.120)	0.00497 (0.127)	-0.0315 (0.0200)	-0.0346* (0.0198)	-0.0106 (0.0227)	-0.0112 (0.0237)	-0.180 (0.179)	-0.211 (0.179)
Debt	-0.00230 (0.00353)	-0.00164 (0.00326)	-0.000192 (0.000839)	-0.000182 (0.000827)	-0.00265** (0.00113)	-0.00260** (0.00112)	0.0253** (0.0106)	0.0251** (0.0108)
Elderly	0.116* (0.0574)	0.106* (0.0609)	-0.0516*** (0.0160)	-0.0556*** (0.0162)	0.0296 (0.0233)	0.0287 (0.0231)	-0.640*** (0.175)	-0.672*** (0.164)
Union Density	0.0120** (0.00434)	0.0126*** (0.00443)	0.00139 (0.00104)	0.00155 (0.000948)	-0.000775 (0.00238)	-0.000735 (0.00242)	0.0178* (0.0100)	0.0194 (0.0114)
Cabinet Length	0.104*** (0.0364)	0.114*** (0.0380)	-0.125*** (0.0147)	-0.122*** (0.0142)	-0.0569*** (0.0184)	-0.0563*** (0.0191)	-0.655*** (0.0892)	-0.623*** (0.0881)
Financial Crisis	1.285*** (0.350)	1.328*** (0.336)	0.247** (0.101)	0.254** (0.0975)	0.0557 (0.0814)	0.0570 (0.0819)	0.189 (0.712)	0.244 (0.723)
Left Government	0.274 (0.334)		0.188** (0.0862)		0.00590 (0.102)		1.784* (0.941)	
Right Government		-0.614* (0.346)		-0.189** (0.0809)		-0.0407 (0.0946)		-1.601* (0.801)
Observations	142	142	138	138	142	142	142	142
R-squared	0.440	0.456	0.608	0.609	0.288	0.289	0.325	0.322

Robust standard errors clustered by country in parentheses *** p<0.01, ** p<0.05, * p<0.1

Empirical Results

The results of our regressions without interactions are presented in table 2. Before we discuss our main findings concerning partisan effects and how they are conditioned by various factors, we briefly discuss the effects of our control variables. (← p. 980)

The first important result is that we find β -convergence for all four policy instruments. Thus, those governments that have started from a high level of spending, regulation or taxation have liberalized significantly more than others. However, the effect is statistically significant at the 1percent level only in three of four cases and close to statistical significance in the case of PMR. Globalization also has a quite consistent liberalizing effect on all four policy instruments under review here, although the effect is not always significant and for some instruments the level of globalization seems to matter more (e.g. corporate tax rates), while for others its changes over the governing period are more relevant (e.g. social expenditure and PMR). Thus, if anything, we can corroborate an efficiency effect of globalization, while there is no evidence at all for the compensation thesis.

In contrast, the effect of membership in the EU differs between the four fields under investigation. While we find the expected negative effect for subsidies and PMR, EU members do not differ significantly from other governments in social spending and the EU even exerts a significantly positive effect on corporate taxation. The fact that the liberalizing effects of the EU are clearest for product markets and subsidies is not surprising. The EU operates a comparatively strict state aid regime, particularly after Regulation 659/1999 came into force (Zahariadis, 2010a). Thus, among other things, the European Commission can decide that member states have to abolish subsidies that are found to be incompatible with the internal market (article 108.2 TFEU). Similarly, the EU holds rather far-reaching competences when it comes to product market liberalization and many sectors have indeed

been the subject of directives that aimed at a deregulation of the sector in question (cf. Scharpf, 1999). In contrast, the influence of the EU in the field of social policy is quite restricted. The significantly positive effect of EU membership is surprising and contradicts findings of earlier research (Clausing, 2008; Genschel *et al.*, 2011). It is unlikely that this result picks up the effect of EU measures against tax competition – because these measures basically aim at targeted tax competition while the EU failed to contain competition on tax (**← p. 981**) rates, which we analyze here (Kemmerling and Seils, 2009). Rather, our results might be due to the fact that the studies that have found a negative effect of the EU on corporate tax rates have included the East European EU members, some of which are known for their very low corporate tax rates.

The effects of socio-economic problems also differ somewhat between the policy instruments. As can be expected, public debt drives down subsidies and (although not significantly) social spending, while it keeps governments from reducing corporate tax rates and does not have a significant effect on PMR. Similarly, an increase in unemployment and a high share of elderly people increase social expenditure. In contrast, the more long-term problem of a high share of pensioners has the opposite effect on business taxation and even leads to a liberalization of product markets. As expected, the financial crisis tended to confine further liberalizations although the effect is only significant for social spending and PMR. Finally, regarding the political variables, we find that union density is relevant for social spending and corporate income tax rates, which both are higher where trade unions have more members.

Turning to our main independent variables of interest, we find partisan differences with respect to all four dimensions of the interventionist state under investigation and therefore general support for our hypothesis 1. However, while the signs of the party variables always point in the expected direction (also for subsidies which is contrary to hypothesis 1a), only five of the eight relevant coefficients reach statistical significance. Thus, right parties spend

significantly less on social expenditure, deregulate product markets and cut corporate income tax rates more, while left parties liberalize markets and reduce corporate income taxes less.⁹ For example, the decrease of corporate income tax (or social expenditure) under a right-wing cabinet is estimated to be 1.66 (or 0.614) percentage higher than under a left wing cabinet. In the case of subsidies, neither of the partisan variables is statistically significant, however.

Table 3: The Influence of Christian Democratic and Right Populist Parties

	(1) SE	(2) PMR	(3) SUBS	(4) CIT
Christian Democratic Parties				
Christian Democrats in Government	0.453 (0.369)	-0.0131 (0.111)	0.145 (0.133)	0.196 (1.957)
Observations	142	138	142	142
R-squared	0.440	0.584	0.293	0.306
Right Populist Parties				
Right Populist Parties in Government	1.946* (1.111)	-0.454** (0.210)	0.672** (0.252)	-5.752 (3.785)
Observations	142	138	142	142
R-squared	0.440	0.587	0.295	0.310

Robust standard errors clustered by country in parentheses *** p<0.01, ** p<0.05, * p<0.1; SE=Social Expenditure, PMR=Product Market Regulation, SUBS= Subsidies, CIT=Corporate Income Tax; the results of the control variables are suppressed to conserve space.

(← Table A3 p. 981)

In table 3, we present results of regressions that are identical to the ones in table 2 except that we include a variable capturing the governmental strength of Christian democratic (upper part of table 3) and right populist parties (lower part of table 3) instead of left and right government. We only report the coefficients of the party variables. It turns out that Christian democratic parties do not make a difference with respect to the four fields of state intervention. The respective coefficient is close to zero which provides empirical support for our hypothesis 1b. We have also re-estimated the models for Christian democratic parties,

controlling for right-wing (populist, conservative and liberal) or left-wing parties in government, respectively, and obtained the same results (cf. table A2).

The results for right populist parties are highly interesting. While the preferences of right populist parties are comparable to left wing parties when it comes to the welfare state, they are more in line with right wing parties with regard to the liberalization of markets and tax policy. In accordance with hypothesis 1c, the coefficient of right populist parties is positive and statistically significant in the case of social expenditure and subsidies but negative when analyzing PMR and corporate income tax. Given that only 7 out of 142 cabinets contain right populist parties, the interpretation of this result should be cautious, however.¹⁰ (**← p. 982**)

To analyze whether partisan effects are conditioned by globalization, European integration, the cabinet length or economic pressure, we include interaction terms in our models. We present the interaction effects with the help of marginal effects plots to make interpretation easier. Thus, the figures below depict the marginal effect of the partisan complexion of government on the various indicators of government intervention at different levels of cabinet duration, globalization and socio-economic problems, respectively. In each of the figures, we present the results for the interaction terms for one conditioning variable. The first figure refers to the interaction with cabinet length, the second one to the conditioning effect of globalization and the last figure to the interaction with the variables capturing the domestic economic situation. For reasons of clarity we only present marginal effect plots for one of the two party families. The regression results for both party families can be found in the appendix (table A3 and A4).

We begin with the interaction of the party variable with cabinet duration to test hypothesis 2 (see figure 1). When controlling for the time a government is in office, results for partisan effects become more nuanced. Interestingly, for all dependent variables except subsidies, the

effect of both party ideology variables (left as well as right government) becomes significant at the 95 percent level after 4 to 5 years in office. Thus, parties evidently need approximately one parliamentary term to make their mark.

In figure 2 the results for the interaction of government partisanship and the level of globalization are depicted. For right parties, we find the pattern expected in hypothesis 3c for three of the four policy instruments under investigation. Thus, right parties only start to cut business taxes and curtail social spending significantly more than their competitors as trade openness reaches 71 percent of GDP in both cases. In the case of subsidies only conservative parties reduce subsidies in times of globalization (from trade openness of 86 percent of GDP onwards), while the effect of liberal parties is not conditioned by globalization.¹¹

Interestingly, the threshold in the level of globalization above which right or conservative parties start to make a difference is lower for business taxation and social spending than for subsidies. The results for PMR are somewhat divergent (not shown). In line with hypothesis 3a, the effect of right parties decreases as globalization increases and it becomes insignificant at moderate levels of trade openness.

The patterns for left parties are slightly less clear cut. Globalization does not seem to condition the effect of left parties on social expenditure and subsidies (not shown). For PMR, the results for left parties mirror those for right parties as we only find the expected partisan effects at low levels of trade openness (figure 2, top right). This provides support for hypothesis 3a according to which partisan differences disappear as globalization becomes more relevant. Nonetheless, at very high levels of trade openness we even find a significantly negative effect of left parties in government on liberalization. Finally, our results for business taxation corroborate hypothesis 3c (not shown): While left parties do not make a difference with regard to corporate tax rates in comparatively closed economies, they tend to produce

systematically higher business tax rates from a level of trade openness of 76 percent onwards (5 percent level). (← p. 983)

Figure 1: Conditioning Effect of Cabinet Length on Impact of Parties

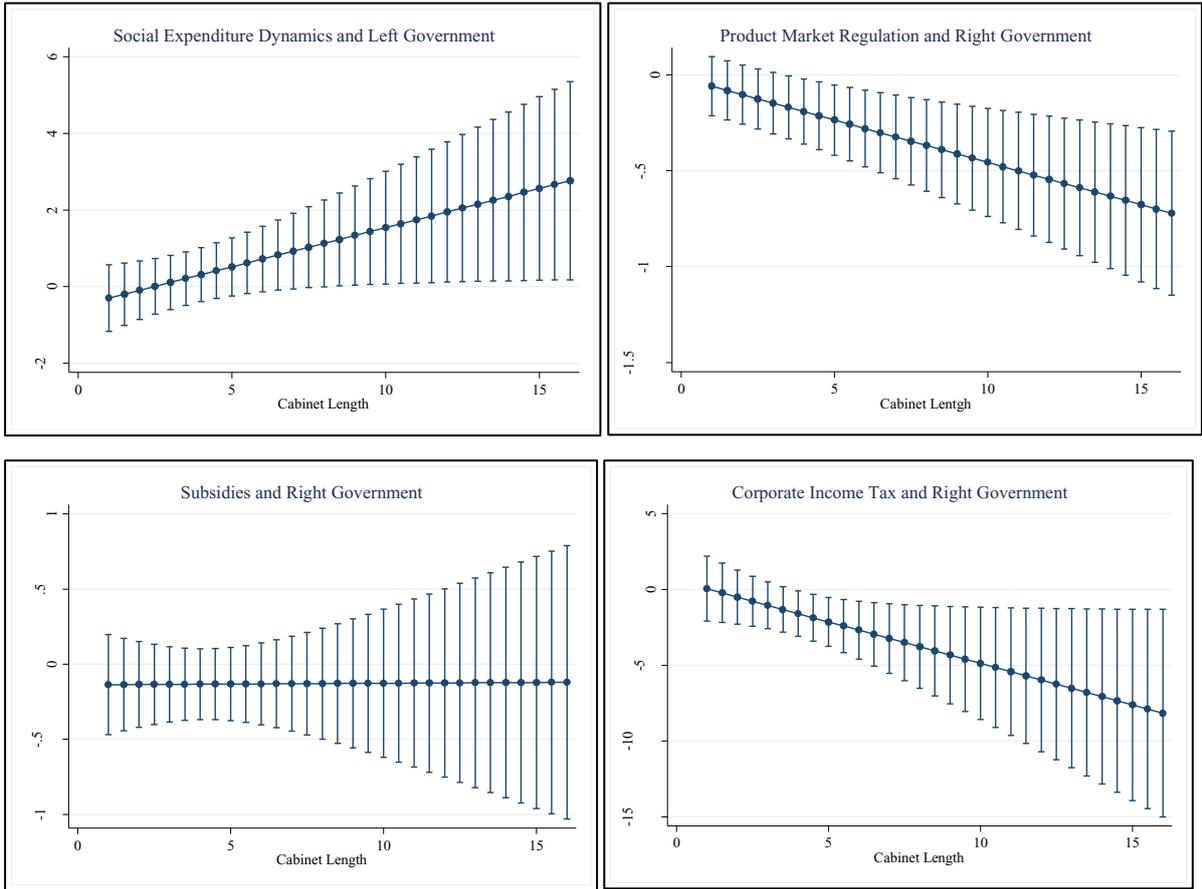


Figure 2: Conditioning Effect of Globalization on Impact of Parties

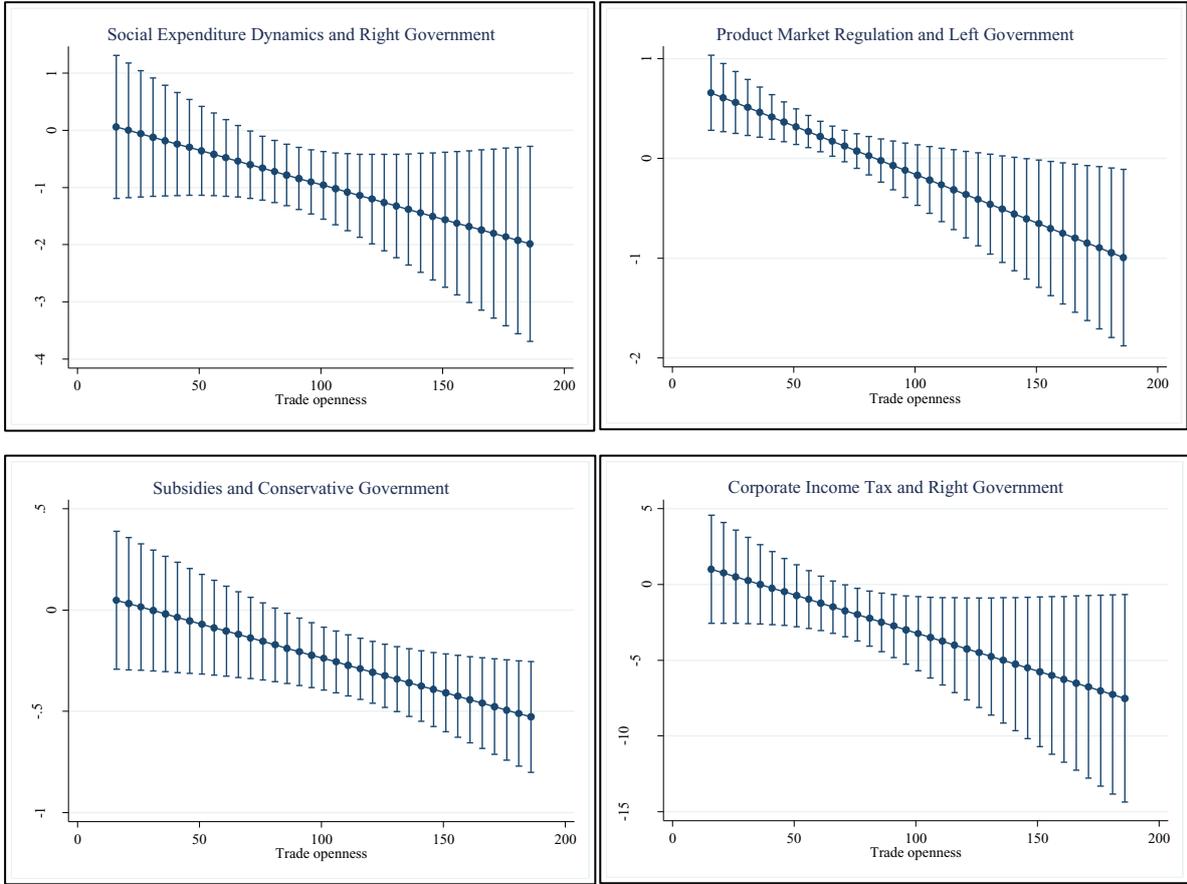
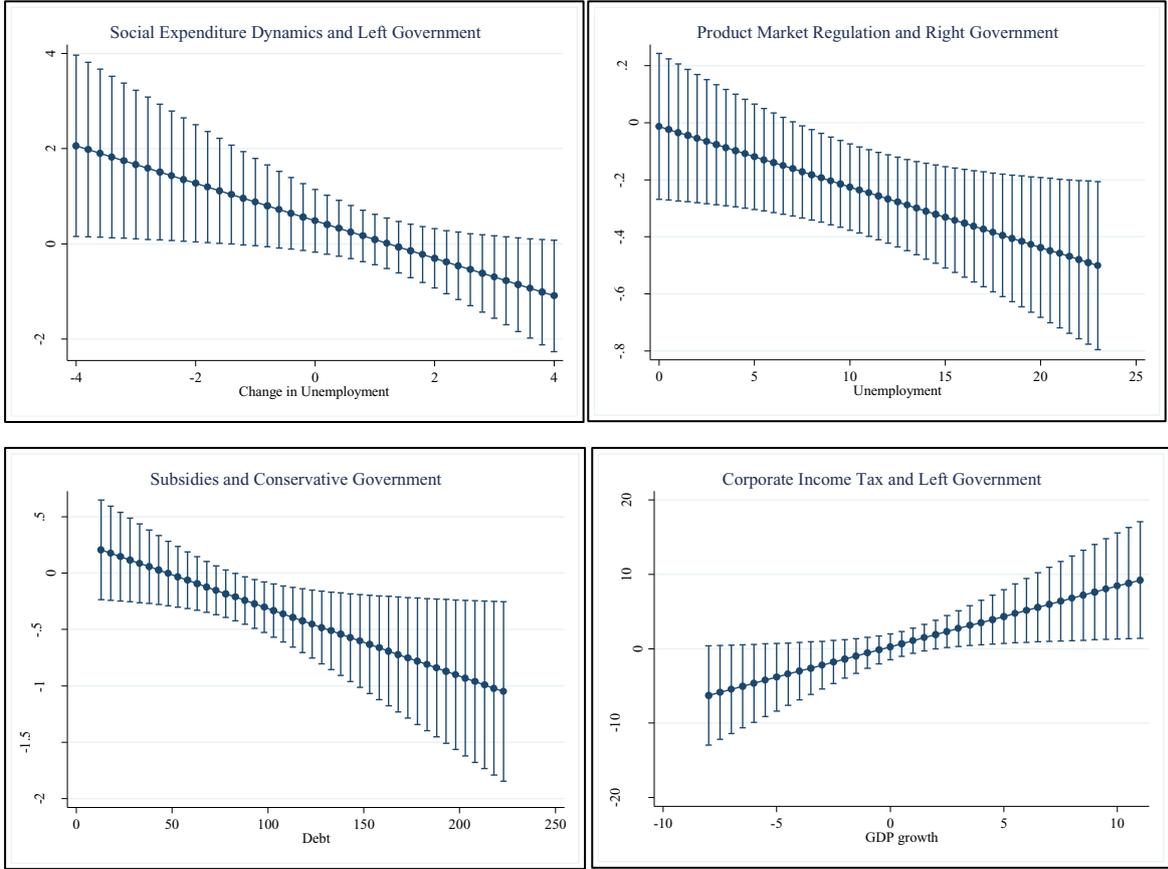


Figure 3: Conditioning Effect of Domestic Economic and Financial Pressure on Impact of Parties



(← Figure 3 p. 985)

So overall, we find substantially more evidence for the argument that partisan differences become stronger as globalization increases. Nonetheless, the findings also provoke the question why product market liberalization is different. We can only speculate about this point here. One argument could be that the distributive consequences of a deregulation of product (← p. 984) markets are much less visible than those of cuts to welfare spending, business tax rates and even subsidies. So as globalization and the economic pressure to liberalize increase, parties of the left might be just as willing to deregulate as parties of the right because there is not much redistributive potential at stake. Moreover, liberalization of markets is supposed to lead to increased competition, which could be accompanied by a

weakening of the companies that hitherto have dominated the domestic market. This could well be as much in the interest of left governments as of right governments.

In contrast to the effects of globalization and against hypothesis 3b, we do not find any conditioning effects of EU membership although we have identified significant direct effects on economic policies. Partisan effects are thus comparable in EU member countries and non EU members. The results for the interaction effect with EU membership are therefore not presented in detail.¹²

Turning to the conditioning effects of economic problems (figure 3), most of our expectations from table 1 above are corroborated. Thus, left parties keep corporate tax rates at a significantly higher level in a high growth environment and when unemployment is low, while they spend significantly more on welfare than other parties when unemployment is falling. Similarly, and again as expected, we find that conservative parties deregulate product markets significantly more than others when unemployment is high and economic growth sluggish (although the effect becomes insignificant again when GDP shrinks very much), while debt does not condition partisan effects in PMR.¹³ Finally, we find that partisan (**← p. 985**) differences in subsidies are only conditioned by debt as conservative governments reduce subsidies significantly more than other cabinets under conditions of high debt. Again as expected, partisan differences in state aid spending are not conditioned by growth or unemployment. While most conditional effects of domestic economic problems thus go into the expected direction, the findings for debt in corporate taxation and social expenditure go against our expectations, as debt does not condition partisan effects in either of the two fields. Therefore, it turns out that in more salient policy instruments partisan differences are likely to disappear as problems increase, while the opposite is true for less salient policy instruments. While we predicted and found that high or rising unemployment would accentuate partisan

differences in product market liberalization it led to their disappearance in corporate taxation and social spending. A similar pattern can be observed for growth – with the exception of social expenditure. This latter finding could have to do with the fact that parties differ with regard to spending when times are good (just as they do with regard to unemployment), but that they are also likely to pursue differing spending priorities when growth is slow: Right parties might argue that reducing spending in the face of sluggish growth creates space for tax cuts and lower interest rates, both of which would in turn incite more economic activity; left parties, on the other hand, should care more about the negative short-term effects of spending cuts on aggregate demand, which might lead them to increase rather than cut spending under conditions of slow growth. Thus, social spending could vary between governments of differing partisan complexion irrespective of the rate of economic growth which implies that growth does not moderate partisan effects on this policy instrument.

Additionally, we have run several robustness checks to test the sensitivity of our results. For reasons of simplicity, we mostly only report the results of right-wing parties in government in the appendix tables.

We start by adding further independent variables to our models. A first independent variable is the policy-specific public opinion. Do policies simply reflect public opinion or are partisan differences independent of voters' preferences? We use data from the International Social Survey Programme's Role of Government (1985, 1990, 1996, 2006) and Religion (1991, 1998) surveys to measure public opinion regarding subsidies, PMR and social policy (for details see table A5). Since no item is available for corporate taxation, we have to confine ourselves to three of our four dependent variables. Moreover, although we increase the number of observations of public opinion by linear interpolation, the number of cabinets drops dramatically due to missing data. Looking at the results in table A5 (model 4-6), we see that partisan effects are unaffected by the inclusion of the policy-specific public opinion in the

models for subsidies and social expenditure. Interestingly, when looking at PMR, the effect of right government fails to reach statistical significance (although not by much) when controlling for public opinion. This is not entirely a consequence of the much reduced sample, as model 2 in table A5 shows: The coefficient of right government is statistically significant in the smaller sample when the variable measuring public opinion is left out. The number of observations is so low that interpretation should be extremely careful, however, particular as for some countries (Belgium, Greece) no data are available at all and no data are available for years after 2006. Moreover, the public opinion variable fails to reach statistical significance. Nonetheless, we could speculate that the comparatively low (**← p. 986**) distributional consequences at stake in PMR might help explain why parties follow public opinion more in this field than in social expenditure. This is clearly a relationship future research should examine further as more data become available.

Moreover, in models 1 to 4 in table A6, we include *political institutions* to measure the institutional constraints political decision-makers are facing (data source: Armingeon *et al.*, 2016). Next, we test whether the specific operationalizations of some important independent variables affects our results. First, we use the economic dimension of the index of globalization (KOF) provided by Dreher (2006) instead of the trade variable to measure globalization. Secondly, we include a dummy capturing membership in the European Monetary Union rather than the European Union (not reported). Lastly, in table A7, we control for the level of corporatism as measured by Jahn (2016) (models 1-4) and excluded the communist parties from our measure of left-wing cabinets (models 5-8).

Next, we use period dummies for the 1980s and 1990s and for the years after 2000 (table A8) to control for period-specific effects.

We also included country dummies (table A9, models 1-4) to control for country-specific effects. However, including country dummies implies analyzing the effect of partisan changes in government in a specific country on the deviation of state intervention from the average change in state intervention in this specific country. This shift in the research focus implies analyzing a variation we are not interested in.¹⁴ Moreover, we estimated jackknife models to test whether our coefficient estimates are sensitive to single cabinets (table A9, models 5-8) and ran our models employing alternative standard errors, namely Newey-West standard errors (table A6, models 5-8).

The results of all robustness checks generally support our main findings – including the findings on the interaction effects. In the Jackknife analysis, especially the British governments of Margaret Thatcher and John Major turn out to be exceptional cases as they lasted rather long and pursued strict liberalization policies in all policy instruments under review here independent of the level of globalization or the extent of domestic problems. If these cabinets are excluded from the regressions, the model fit even improves in most of the cases.

6. Conclusion

Do parties matter for the development of the interventionist state in advanced democracies? We have tried to answer this question by looking at four instruments of economic intervention in 21 OECD countries over the last three decades that we analyzed in an identical way. Overall, we can summarize our results as follows (see also table 4). First, and in line with our expectations, right governments implement less interventionist policies than left governments. Parties make a difference with regard to state intervention, even though not to the same extent in all policy fields. Second, although partisan differences in the field of subsidies do not

reverse, as suggested by Zahariadis (2010b) and Rickard (2012), they do not follow the (← p. 987) logic we find in the other three policy fields. In particular, subsidy spending is the only variable for which we do not find significant direct partisan effects. Neither do we find a conditioning influence of cabinet duration as is the case with respect to the other three policies under investigation. Third, Christian democratic parties pursue a policy strategy between interventionism and market orientation. The variable capturing the strength of Christian democratic parties remains insignificant in all models. Fourth, right populist parties follow their voters' core demands for higher social expenditure and more subsidies and their coalition partners' demands for less regulation and business taxation.

A major focus of our study has been on the relevance of interaction effects which not have been tested in a systematic manner hitherto. Again we find important patterns. Thus, conclusion 5 is that parties need time to make a difference. More concretely, it takes about one parliamentary term to shape policies according to their ideological orientation. We can thus corroborate Emmenegger's (2007) findings for social policy but can also show that this is a more general pattern that also applies to PMR and corporate taxation (but not to subsidies) – something that has not been tested in the literature yet. This is also an argument that using cabinets instead of country-years as periodization is more appropriate when analyzing partisan effects.

Sixth, globalization rather pushes partisan differences. For right wing governments, globalization seems to serve as legitimation strategy to implement market-oriented policies, while (← p. 988) left governments attenuate the effects of globalization on the interventionist state. While Potrafke (2009) and Kwon/Pontusson (2010) report somewhat similar results for social policy, we find much stronger effects (probably due to our focus on cabinets rather than country-years) and show that this pattern is generalizable to other policy instruments like subsidy spending and business taxation where this argument has not been tested before. In

contrast, there is only very limited support for Susan Strange's (1995) notion that globalization spells the end of partisan differences.

Table 4: Summary of hypotheses and results

	Hypotheses	Empirical Results
H1	Left governments pursue more interventionist policies than right governments	Support
H1a	Subsidies should be higher under right governments than under left governments	No support
H1b	Christian democrats do not have a significant effect on government intervention	Strong support
H1c	Right populist parties have a positive effect on welfare spending and subsidies, and a negative (or insignificant) effect on corporate taxation and product market regulation	Support
H2	Partisan differences increase with the time a party remains in office	Strong support (except for subsidies)
H3a	As globalization increases, partisan differences decrease	Support in case of product market regulation
H3b	In member states of the European Union, partisan differences decrease	No support
H3c	As globalization increases, partisan differences increase	Support (except product market regulation)
H4a	Partisan differences decrease as economic growth slows down, unemployment increases and public debt rises	Support in cases of social expenditure and business taxation
H4b	Partisan differences increase as economic growth slows down, unemployment increases and public debt rises	Support in cases of subsidies and product market regulation

(← Table 4 p. 988)

Seventh, domestic economic problems constrain the room to maneuver for parties and limit their possibilities to make a difference in salient issue areas, while the opposite is true for less salient policy fields. At the same time, effects differ for different problem indicators and, quite surprisingly, debt fails to have a conditional effect on partisan differences with the exception of subsidies. These arguments have hardly ever been discussed and tested in the literature before. Lastly, partisan effects are not conditioned by the European Union. Left

governments in EU member states are as influential as left governments outside the European Union. Thus, the EU seems to leave domestic governments more leeway to pursue their preferred policies than is often assumed. While this interaction has not been tested for any of the policy fields under investigation here, it is at odds with what Obinger et al. (2014) find for privatization. Thus, future research needs to look closer at the circumstances under which the EU constrains partisan differences.

While our results suggest that the dynamics driving the development of the four policy instruments under investigation here are surprisingly similar, some differences remain: Partisan differences in subsidy spending are much less pronounced than in the other issue areas; globalization does not lead to an accentuation of partisan differences in PMR while it does so in the other instruments; and partisan differences tend to disappear in the salient issue areas of welfare spending and business taxation when the economic situation worsens, while they tend to become stronger under these conditions for subsidies and PMR.

These findings evidence the value-added of analyzing more than one policy instrument. Only by comparing results for various policy instruments is it possible to distinguish between general patterns that characterize most issue areas and policy-specific developments which cannot be generalized beyond one particular field of analysis. For example, we are able to show that partisan differences are still relevant and that only subsidies deviate from this pattern. Given these results, the failure to detect partisan differences in the area of subsidies does not call into question our general conclusion about the effects of the partisan complexion of government but rather suggests that future research should seek to better understand what distinguishes subsidies from other economic policy instruments. Similarly, only by investigating several policy instruments can we test hypotheses about systematic differences between the politics of these instruments as we have done for the conditional effect of socio-economic problems. As social policy is almost always salient while PMR essentially never is,

these differences, which display quite interesting patterns, could not be analyzed by only looking at one policy instrument. Thus, we hope that more studies will engage in the comparison of various policy instruments. At the same time, future research should also take a closer look at the underlying causal mechanisms and reasons for varying dynamics in different sectors of the interventionist state. (← p. 989)

Supplementary material

Table O1: Panel Data Estimations – Beck-Katz Standard and Modifications

Dependent variable: Social Expenditure as % of GDP

Independent variables	(1)	(2)	(3)
Left Government	0.000473 (0.000748)	-0.000975 (0.00148)	-0.00120 (0.00159)
Globalization	-0.0108*** (0.00379)	-0.0532*** (0.0130)	0.00245 (0.0156)
GDP per capita (log)	0.476 (0.572)	-3.197* (1.755)	4.877*** (1.697)
Debt	0.00163 (0.00241)	0.0126* (0.00727)	0.0461*** (0.00725)
Unemployment	-0.0848*** (0.0191)	0.0876** (0.0385)	0.122** (0.0573)
Political Institutions	0.0996 (0.0663)	-0.0365 (0.133)	-0.253 (0.179)
Union density	-0.0158** (0.00786)	-0.00412 (0.0245)	-0.0361 (0.0279)
Country Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	No
Lagged Dep. Variable	Yes	No/AR1	No/AR1
F/Wald Chi2	196490.18***	156290.98***	82604.14***
R ²	.983	.845	.721
N	562	562	562

Note: All variables are lagged by one year, Panel corrected standard errors in parentheses; *** p<.01, ** p<0.05, * p<0.1. Fixed effects are compressed to conserve space.

Table O2: Panel Data Estimations – First Difference Models

Dependent variable: Change in Social Expenditure as % of GDP				
Independent variables	(4)	(5)	(6)	(7)
Left Government	0.000303 (0.000623)	0.000864 (0.000773)	0.000461 (0.000613)	0.000967 (0.000763)
GDP growth	-0.0715*** (0.0144)	-0.0758*** (0.0134)	-0.0519*** (0.0155)	-0.0554*** (0.0163)
Δ Globalization	-0.134*** (0.0230)	-0.187*** (0.0217)	-0.110*** (0.0233)	-0.166*** (0.0232)
Δ Debt	0.00786 (0.00768)	0.00388 (0.00776)	0.00355 (0.00825)	-0.00136 (0.00845)
Δ Unemployment	0.144*** (0.0383)	0.0931** (0.0366)	0.128*** (0.0377)	0.0806** (0.0367)
Δ Union density	0.0287 (0.0272)	0.0502* (0.0258)	0.00661 (0.0282)	0.0284 (0.0271)
Country Dummies	No	Yes	No	Yes
Year Dummies	No	No	Yes	Yes
Lagged Dep. Variable	Yes	Yes	Yes	Yes
F/Wald Chi2	287.00***	1432.75***	1396.81***	3944.77***
R ²	0.382	0.428	0.478	0.514
N	520	520	520	520

Note: Panel corrected standard errors in parentheses, *** p<.01, ** p<0.05, * p<0.1. Fixed effects are compressed to conserve space.

Table O3: Panel Data Estimations - First Difference and Error Correction Models

Dependent variable: Change in Social Expenditure as % of GDP				
Independent variables	(8) FD	(9) FD	(10) ECM	(11) ECM
Left Government			0.000993 (0.000821)	0.000222 (0.000725)
Δ Left Government	-0.00196 (0.00146)	-0.00214 (0.00142)	-0.00137 (0.00148)	-0.00200 (0.00139)
Δ Globalization	-0.0722*** (0.0142)	-0.0765*** (0.0131)	-0.0540*** (0.0114)	-0.0480*** (0.0103)
GDP growth	-0.133*** (0.0226)	-0.185*** (0.0210)	-0.193*** (0.0198)	-0.171*** (0.0200)
Δ Debt	0.00791 (0.00754)	0.00413 (0.00758)	0.0101 (0.00705)	0.0205*** (0.00721)
Δ Unemployment	0.140*** (0.0385)	0.0883** (0.0369)	0.0837** (0.0327)	0.113*** (0.0310)
Δ Union density	0.0330 (0.0275)	0.0565** (0.0261)	0.0344* (0.0195)	0.0422** (0.0188)
Country Dummies	No	Yes	No	Yes
Year Dummies	No	No	No	No
Lagged Dep. Variable	Yes	Yes	Lagged level	Lagged Level
F/Wald Chi2	292.86***	989.93***	573.90***	2508.57***
R ²	0.384	0.430	0.401	0.497
N	520	520	537	537

Note: Panel corrected standard errors in parentheses: *** p<.01, ** p<.05, * p<.1. Fixed effects are compressed to conserve space.

Table O4: Descriptive Statistics – Cabinet-Based Periodization

Variable	Obs	Mean	SD	Min	Max
Change in Social Expenditure	118	.387	1.64	-4.40	5.4
Social Expenditure	119	21.28	5.17	10.1	34.7
Left Government	121	.356	.376	0	1
Globalization	121	57.60	27.56	12.51	154.36
Δ Globalization	121	3.154	3.93	-3.59	21.71
GDP per capita (log.)	121	10.14	.277	9.29	10.81
GDP growth	121	2.52	1.90	-4.95	9.95
Debt	113	63.73	28.77	13.99	165.52
Δ Debt	117	.368	3.49	-8.06	16.27
Unemployment rate	121	7.48	4.099	.257	24.17
Δ Unemployment rate	121	-.055	1.85	-4.45	9.75
Political Institutions	121	2.37	1.467	0	5
Union density	121	40.48	21.11	7.7	86.05
Δ Union density	121	-1.11	2.66	-10.4	5.6

Table O5: Empirical Findings – Cabinet-Based Alternative

Dependent variable: Change of Social Expenditure as % of GDP

Independent variables	(1)	(2)	(3)	(4)	(5)	(6)
Left Government	0.701** (0.298)	0.640** (0.316)	0.705** (0.320)	0.702** (0.293)	0.657* (0.387)	0.634* (0.385)
Social Expenditure _{t-1}	-0.111*** (0.0217)	-0.116*** (0.0246)	-0.114*** (0.0359)	-0.110*** (0.0192)	-0.218*** (0.0570)	-0.284*** (0.0787)
Δ Globalization	-0.0948** (0.0347)	-0.0944*** (0.0344)	-0.108*** (0.0344)	-0.0730** (0.0324)	-0.0805* (0.0432)	-0.0661 (0.0455)
GDP growth	0.0657 (0.0811)	0.0572 (0.0843)	0.0352 (0.105)	0.0546 (0.0773)	0.0804 (0.118)	0.0353 (0.124)
Δ Debt	0.0305 (0.0470)	0.0277 (0.0453)	0.0197 (0.0567)	0.0344 (0.0432)	0.0200 (0.0505)	-0.0174 (0.0591)
Δ Unemployment	0.376*** (0.116)	0.360*** (0.115)	0.376** (0.138)	0.307** (0.124)	0.382*** (0.114)	0.289** (0.120)
Δ Union density	0.0420 (0.0833)	0.0520 (0.0801)	0.0661 (0.100)	0.0518 (0.0747)	0.0673 (0.0669)	0.0760 (0.0687)
Years in Power	0.173*** (0.0452)	0.186*** (0.0512)	0.221*** (0.0702)	0.155*** (0.0380)	0.174** (0.0783)	0.167* (0.0840)
Country Dummies	No	No	No	No	Yes	Yes
Year Dummies	No	No	No	Yes	No	Yes
Lagged Dep. Variable	L.Level	L.Level	Yes, L.Level	L.Level	L.Level	L.Level
Standard Error	Clustered Eicker- Huber-White	Newey-West	Clustered Eicker- Huber-White	Clustered Eicker- Huber-White	OLS-SE	OLS-SE
F	11.56***	8.96***	10.98***	12.83***	3.03***	2.89***
R ²	0.421		0.419	0.447	0.500	0.533
N	114	111	95	114	114	114

Note: *** p<.01, ** p<0.05, * p<0.1. Fixed effects are compressed to conserve space.

Table O6 Robustness Checks I: Empirical Findings –Cabinet-Based Alternative

Dependent variable: Change of Social Expenditure as % of GDP			
Independent variables	(1)	(2)	(3)
Left Government	0.603*	0.550*	0.816**
	(0.293)	(0.322)	(0.356)
Social Expenditure _{t-1}	-0.107***	-0.111***	-0.0822***
	(0.0234)	(0.0275)	(0.0244)
Globalization	-0.0101*	-0.0122**	-0.0126**
	(0.00528)	(0.00535)	(0.00557)
GDP per capita (log)	-0.565	-0.391	-0.545
	(0.545)	(0.660)	(0.696)
Debt	-0.00306	-0.00287	-0.00208
	(0.00286)	(0.00320)	(0.00408)
Unemployment	-0.0576*	-0.0571*	-0.0770
	(0.0303)	(0.0333)	(0.0456)
Political Institutions	0.132	0.162*	0.155
	(0.0824)	(0.0878)	(0.113)
Union density	0.0135***	0.0136**	0.0117**
	(0.00474)	(0.00525)	(0.00512)
Years in Power	0.0343	0.0451	-0.0191
	(0.0512)	(0.0554)	(0.0610)
Lagged Dep. Variable	L.Level	Yes, L.Level	Yes, L. Level
Standard Error	Clustered Eicker- Huber-White	Newey West	Clustered Eicker- Huber-White
F	5.86***	5.63***	8.30***
R ²	0.257		0.217
N	109	106	92

Note: *** p<.01, ** p<0.05, * p<0.1.

Table O7: Robustness Checks II: Empirical Findings – Cabinet-Based Alternative

Dependent variable: Change of Social Expenditure as % of GDP					
Independent variables	(1)	(2)	(3)	(4)	(5)
	Jackknife	Government Ideology	Conservative Government	Interaction Time	Interaction Globalization
Left Government	0.701*			0.673**	0.679**
	(0.408)			(0.283)	(0.268)
Government Ideology¹		-0.130*			
		(0.0769)			
Conservative Government			-0.933**		
			(0.444)		
Time ³				-0.0155	
				(0.0136)	
Globalization ⁴					-0.00323
					(0.00350)
Interaction				-0.0157	0.00215
				(0.0421)	(0.0123)

Social Expenditure _{t-1}	-0.111*** (0.0313)	-0.118*** (0.0246)	-0.129*** (0.0258)	-0.111*** (0.0242)	-0.112*** (0.0253)
Δ Globalization	-0.0948** (0.0385)	-0.0975*** (0.0348)	-0.105*** (0.0358)	-0.0890** (0.0345)	-0.0860** (0.0375)
GDP growth	0.0657 (0.100)	0.0468 (0.0831)	0.0636 (0.0819)	0.0557 (0.0888)	0.0709 (0.0855)
Δ Debt	0.0305 (0.0398)	0.0261 (0.0462)	0.0260 (0.0440)	0.0421 (0.0449)	0.0364 (0.0515)
Δ Unemployment	0.376*** (0.131)	0.351*** (0.113)	0.333*** (0.116)	0.351*** (0.120)	0.368*** (0.118)
Δ Union density	0.0420 (0.0937)	0.0527 (0.0824)	0.0717 (0.0741)	0.0505 (0.0789)	0.0558 (0.0795)
Years in Power	0.173** (0.0691)	0.193*** (0.0528)	0.218*** (0.0555)	0.176*** (0.0468)	0.182*** (0.0510)
F	7.22***	9.10***	9.55***	7.88***	7.39***
N	114	111	111	111	111

Note: *** p<.01, ** p<0.05, * p<0.1. Fixed effects are compressed to conserve space.

1: Left-right scale (low values=left-wing, high values=right-wing) based on ParlGov data provided by Manow and Doering, 2: share of cabinet seats held by right-wing parties, 3: time = start of cabinet

4: globalization = trade openness

Table O8 Robustness Checks III: Empirical Findings – 5 Year Time Interval

Dependent variable: Change of Social Expenditure as % of GDP					
Independent variables	(1)	(2)	(3)	(4)	
Left Government	-0.00560 (0.00417)	-0.00526 (0.00422)	0.00243 (0.00590)	0.00144 (0.00526)	0.00892* (0.00479)
Social Expenditure _{t-1}			-0.434*** (0.104)	-0.531*** (0.125)	-0.136*** (0.0351)
(Δ) Globalization	-0.101*** (0.0364)	-0.0847*** (0.0297)	-0.0176 (0.0342)	-0.0369 (0.0419)	-0.0439 (0.0280)
(Δ) GDP per capita (log)	3.128 (2.072)	8.783*** (1.907)	-14.95*** (5.154)	-12.02** (5.713)	-11.45*** (3.060)
(Δ) Debt	0.0252* (0.0149)	0.0460*** (0.0105)	0.00122 (0.0126)	0.0126 (0.0135)	-0.000809 (0.0107)
(Δ) Unemployment	0.180** (0.0708)	0.201** (0.0920)	0.0491 (0.102)	0.0748 (0.103)	0.190* (0.0927)
Political Institutions	-0.333 (0.270)	-0.263 (0.357)			
(Δ) Union density	-0.0269 (0.0481)	-0.0398 (0.0380)	0.111 (0.0702)	0.0787 (0.0772)	0.0799 (0.0609)
Country Dummies	Yes	Yes	Yes	Yes	No
Year Dummies	Yes	No	No	Yes	No
R ²	0.937	0.956	0.757	0.776	0.613
N	97	97	95	95	95

Note: *** p<.01, ** p<0.05, * p<0.1. Model 1 and 2 are estimated with lagged levels while model 3 to 5 includes the differences where Δ is in bracket.

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¹Assuming subsidies help declining industries and are thus in the interest of those parts of the working class that do not benefit from globalization (see the discussion above).

² For a brief discussion of salience of policy instruments based on CMP data (Volkens *et al.*, 2016) cf. Appendix 1.

³ The countries covered are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

⁴ For a detailed discussion,see Schmitt (2016).

⁵ Note that we use cabinets only as an alternative periodization for our data. Thus, the only difference between our approach and the traditional country-year literature is that we do not look at years but at governments, i.e. larger time-spans.

⁶ The regression equation, for example, for social expenditure is $\Delta Social\ expenditure_c = a + b1 * social\ expenditure_{c,t0} + b2 * EU_{i,c} + b3 * \Delta globalization_{c,d} + b4 * \emptyset globalization_{c,d} + b5 * \Delta unemployment_{i,c,d} + b6 * GDP\ growth_{c,d} + b7 * \emptyset debt_{c,d} + b8 * \emptyset elderly_{c,d} + b9 * \emptyset union\ density_{c,d} + b10 * cabinet\ length_c + b11 * financial\ crisis_c + b12 * left\ government_c + u_c$, where c represents cabinets, $t0$ represents the year in which a cabinet starts, and d represents the first half of a cabinet.

⁷ For example, the regression equation for model 3 in table A3 (upper part) is $\Delta Social\ expenditure_c = a + b1 * social\ expenditure_{c,t0} + b2 * EU_c + b3 * \Delta globalization_{c,d} + b4 * \emptyset globalization_{c,d} + b5 * \Delta unemployment_{c,d} + b6 * GDP\ growth_{c,d} + b7 * \emptyset debt_{c,d} + b8 * \emptyset elderly_{c,d} + b9 * \emptyset union\ density_{c,d} + b10 * cabinet\ length_c + b11 * financial\ crisis_c + b12 * left\ government_c + b13 * left\ government_c * \emptyset globalization_{c,d} + u_c$.

⁸ The VIF values indicate that including more than one interaction term would cause high levels of multicollinearity and in consequence large standard errors. For example, when we include the three interaction variables that have turned out to be statistically significant in table A3 in one single model when analyzing the

change in PMR, the VIF-value of left government equals 22 and is clearly far above acceptable levels. Such high levels of multicollinearity imply that the variance of the variables of theoretical interest that could be used to estimate their coefficients would be close to zero.

⁹ The pronounced partisan effects for product market regulation mirror Potrafke's (2010) findings.

¹⁰ This is also the reason why we have not produced interaction effects with this variable.

¹¹ The finding that right parties cut subsidies more than others (although only at comparatively high levels of globalization) is particularly interesting as it again contradicts hypothesis 1a; right parties thus do not seem to be more inclined to hand out subsidies than left parties.

¹² Detailed results can be provided upon request.

¹³ We find a significant conditional effect for a very small range of values at very low levels of debt, though.

¹⁴ Moreover, recent methodological literature demonstrates that Fixed effects estimators are not as suitable as default solution as it seemed for a long time. The fixed effects estimator even performs worse than the naïve OLS estimator when effects are not completely independent of time which is typically the case in social sciences (see for a detailed discussion Plümper and Tröger forthcoming).