Does the partisan character of governing parties play a role in the formation of fiscal policy? The conventional view is that the left tends toward excessive deficits, whereas the right practices a more prudent fiscal policy; however, strong arguments have been advanced that whatever room existed previously for partisanship in fiscal policy making has been sharply reduced by developments in recent decades. These issues are examined with a series of models that have been estimated using data from 14 Organization for Economic Cooperation and Development countries for the period from 1961 through 1991. The evidence suggests that the relationship between partisanship and fiscal policy is contingent on macroeconomic conditions. The evidence also suggests that these differences have been reduced over recent decades.

PARTISAN POLITICS AND FISCAL POLICY

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The fiscal policies of governments have received a great deal of public and scholarly attention in recent times. One aspect of the fiscal policy problem that has attracted some concern is the putative link between the ideological proclivities of governing parties and their tendency to engage in deficit spending. Plainly put, parties on the left are seen as prone to engage recklessly in deficit spending, whereas parties on the right are seen as fiscally prudent. As pointed out below, this characterization of partisan influences on fiscal policy has received little empirical support in the work of scholars. Furthermore, there are good reasons to believe that a far more complex relationship holds between partisanship and fiscal policy, a relationship that itself has not remained constant over time.

In the following, I outline this complexity and evaluate the evidence that bears on it. Because no one has systematically explored the facets of this complexity simultaneously, I then go on to specify and estimate a set of models that seek to capture its core. The results can be summarized briefly here. Under favorable labor market conditions (full or near full employment), left-

AUTHOR'S NOTE: *My thanks to William J. Dixon, Torben Iverson, Ken Newton, and the anonymous reviewers for their very helpful comments and suggestions on an earlier draft of this article.*

COMPARATIVE POLITICAL STUDIES, Vol. 32 No. 4, June 1999 464-486

dominated governments take far more restrictive fiscal stances than do right-dominated governments. What further distinguishes the left from the right in terms of the fiscal stance that they adopt when governing is that the left is sensitive to high levels of unemployment and engages in countercyclical fiscal policy. On the other side of the political spectrum, the right either ignores the problem or engages in restrictive fiscal policy when confronted with worsening labor market conditions. However, in conformity with the frequently made argument that increasing globalization has reduced the policy latitude of national governments, the results reported here do indeed suggest that partisan-based differences in fiscal policy have become more muted over time.

PARTISAN POLITICAL EXPLANATIONS OF FISCAL POLICY

In one of the earliest systematic empirical studies of fiscal policy, Andrew Cowart (1978) set out to evaluate the forces shaping governments' fiscal policies in Western Europe. A prime hypothesis considered in that work dealt with the effects of the partisan character of government. The way that Cowart formulated this hypothesis corresponds to a rather primitive concept of what motivates a party controlling the government. Simply stated, left-dominated governments will have higher deficits than governments dominated by the right. The source of this difference is the putative disregard that the left has toward deficits as it pursues dramatic growth in public expenditures over time. The left will spend regardless of both the revenue levels accruing to government and macroeconomic conditions (Cowart, 1978, p. 432).

I will point out below that there are a number of reasons to question this view. Briefly stated, others, including Cowart himself, have suggested that this is a misleading characterization of reality for which there is little if any evidence. Indeed, some (e.g., Persson & Svensson, 1989) have argued that parties on the right have the incentive to engage in fiscal imprudence, whereas those on the left lack such an incentive.

Still others (e.g., Carlsen, 1997) suggest that the ideological character of governing parties plays a contingent role in fiscal policy and that role is shaped by macroeconomic conditions. Hence, parties on the left will follow a countercyclical policy, loosening fiscal policy when demand slackens and tightening it when demand surges. Thus, the left will only engage in deficit spending when it is demanded by economic conditions. Simultaneously, parties on the right are seen as engaging in procyclical policies and are particularly prone to engage in tightening fiscal policy as demand slackens and unemployment rises.

Finally, economic interdependence, which has grown significantly over recent decades, is seen as a reason why all of the arguments cited previously are incorrect (e.g., Garrett & Lange, 1991; Scharpf, 1991). In this image, the ever greater openness of national economies has dictated that fiscal policy not be used as an instrument to manage the economy and thereby restricted the latitude with which governing parties' ideological preferences can be expressed in their policies. In other words, there has been a convergence of right and left with no notable distinctions between their fiscal policies.

Ultimately, then, three questions need to be considered. First, if there are partisan-based differences in fiscal policy, holding all other conditions constant, is it the left or the right that is more prone to loose fiscal policy? Second, is the impact of partisanship independent of other conditions or is it contingent on macroeconomic conditions? Third, if any partisan-based differences in fiscal policy existed in the past, whether independent or contingent, have they remained constant or have they been reduced if not eliminated through the pressures of globalization?

Based on their cross-national analysis of the fiscal policies of a large number of Organization for Economic Cooperation and Development (OECD) countries and drawing on their results regarding the differences between left-oriented and right-oriented governments, Alesina, Cohen, and Roubini (1993) concluded that "left wing governments have one-half a percent [of gross domestic product] higher real fiscal deficits per year in office" (p. 18). This result is certainly in conformity with what Hahm, Kamlet, and Mowery (1995, p. 9) characterize as the conventional or popular wisdom that associates the left with deficit spending and the right with fiscal prudence. The commitment of left parties to the Keynesian paradigm and the welfare state particularly lead them to run up deficits and amass ever greater burdens of debt. By implication, the right, with its commitment to a lean (if not impoverished) state and a vibrant and large private sector, eschews negative balances in the public household.

However, there is an array of evidence from other research that contradicts Alesina et al.'s (1993) findings. For example, Peters's (1991) results suggest that the partisan composition of government alone is not related to deficits. Cowart's (1978, p. 434) study of seven West European countries also could find no evidence confirming the proposition that left governments tend to run more sizable deficits than do conservative governments. Cowart's (1978) results were also confirmed by Robertson's (1982) analysis of the effects of the partisan composition of national legislatures on fiscal policy in nine OECD countries during the period from 1950 through 1975. In addition, Haan and Sturm (1994, pp. 162-165), in their study of fiscal policy within the members of the European Community during the 1980s, also report that the

partisan composition of government is unrelated to differences in the growth of public debt. Finally, Hahm, Kamlet, and Mowery's (1996) pooled cross-sectional time-series analysis of deficits in nine OECD countries during the period from 1958 to 1990 also failed to detect any effect of partisanship.

Of interest, a number of other studies have come to the conclusion that the partisan impact on fiscal policy is just the opposite of the conventional wisdom. For example, David Cameron's (1985) analysis of developments in the OECD countries over the period from the mid-1960s to the early 1980s led him to conclude that

> the magnitude of deficits over an extended period varies with the partisanship of government. The nations in which government was usually controlled by leftist parties are usually *less* likely to incur large budget deficits than those in which government was controlled by centrist, Christian Democratic, or conservative parties—in spite of the fact that leftist-dominated parties were much more likely to increase government spending to high levels. (Cameron, 1985, p. 259)

In other words, if there is a straightforward partisan partiality in fiscal policy, it is for the left to adopt a more conservative stance than the right.

Such a conclusion can also be derived from Garrett and Lange's (1991) cross-sectional analyses of the OECD countries' fiscal policies. These analyses show results that indicate that political systems with left governments and strong labor are quite distinguishable from those lacking both of these conditions. The former systems have the tendency to run smaller budget deficits than do the latter (pp. 548-555).

Indeed, Cameron's (1985), as well as Garret and Lange's (1991), results appear to be in conformity with the argument made by Persson and Svensson (1989) that directly contradicts the conventional wisdom. Persson and Svensson (1989) point out that deficits have a great attraction for the right. This follows from the time-inconsistency problem faced by a right-controlled government that cannot be sure that it will be reelected. This has the impact of leading it to run fiscal deficits and thereby ensure that a successor left-controlled government can neither innovate and create new spending programs nor expand existing programs. Deficit spending for the right has another benefit in that it allows such parties to favor their constituencies by cutting taxes.[1] A potential left-wing successor government is thus caught in a

1. The results from Ohlsson and Vedrin's (1996) study of Swedish fiscal policy from the late 1960s through the early 1990s also bears out this argument. Although conservative governments were prone to cut both expenditures and revenues, their tendency was to reduce the former to a far smaller extent than the latter, thereby generating greater deficits than social democratic governments.

fiscal squeeze. It would be forced to choose among the following unattractive options: the unpopular option of increasing taxes simply to maintain present program spending levels, cutting back on spending and thereby disappointing its constituents, or maintaining both but creating a large and unsustainable debt burden that would further squeeze spending programs by the need to cover the ever larger interest charges.

As is often the case with conventional wisdom, the popular view may be an oversimplification or a misleading image of a complicated reality. Buchanan and Wagner (1977) suggest that because deficits can be justified by an appeal to the Keynesian paradigm, politicians (and who more than those on the left?) are so bedazzled by the ease of funding new and ever more expensive programs that they do not heed the maxim that fiscal policy needs to be countercyclical (i.e., deficits are justified only in periods of slackening demand and surpluses are needed when demand is rapidly expanding). Furthermore, their own voracious rent seeking can find an outlet when prudent fiscal constraints are loosened, a situation less likely to occur with governments that position themselves on the right wing of the political spectrum.

A more reasonable interpretation of the conjunction of Keynesian principles and partisan-based policy would suggest that the position of the left, given its constituency of the more economically vulnerable among the electorate, would be one of willingness to use fiscal policy as an instrument to control aggregate demand, whereas the right forswears the use of the instrument because it only interferes with the natural workings of an efficient market system. It follows that under conditions of slack aggregate demand, the left's fiscal stance would be to stimulate that demand by lowering taxes or increasing spending and thereby pushing the balance toward or into a deficit. Where demand is excessive, it would tighten fiscal policy and move toward surpluses in the public household. The right, however, would not respond to slackening demand, seeing it as a natural outcome of market workings that will later correct itself. If anything, the right might be tempted to follow a procyclical policy, particularly under conditions of slack demand, thereby aiding capital in disciplining labor when the latter is already weak.

This general line of argument has been advanced by Cowart (1978, pp. 432-438), who postulated that ideological or partisan difference in fiscal policy was to be seen in the dissimilar responses that the left and right would have to a problem such as unemployment, with the left being far more responsive. This is a position elaborated on and tested recently by Carlsen (1997) within Hibbs's (1977) partisan theory framework. [2] In keeping with the

2. See Hibbs (1992) as well as Schmidt (1996) for broad overviews of partisan theory and the relationship between partisanship and public policy, respectively.

central tenets of partisan theory, Carlsen (1997, p. 145) argues that political parties attempt to pursue policies that conform to their constituencies' preferences. Unemployment is of particular concern for supporters of left parties, and it follows that such parties place a premium on ensuring low levels of unemployment. On the other hand, the supporters of rightist parties place greater emphasis on minimizing inflation and therefore have an aversion to expansive stimuli flowing from fiscal and monetary policy. It is in the interest of right-wing parties to follow the preferences of their constituents, and this would lead the right to refrain from using fiscal policy to steer the economy. Given these conditions, parties on different wings of the political spectrum will be distinguishable by their responses to slackening demand and unemployment. Those on the left are far more likely than those on the right to use fiscal policy to counter this macroeconomic problem. Thus, it is expected that the fiscal policy of left-dominated governments would be more sensitive to high or rising unemployment. What further distinguishes the two parties as well is the tendency of the left to be consistent in their policy when macroeconomic conditions are quite good. In such times, they are far more likely to pursue contractive fiscal policies to ensure that debt does not become unsustainable, particularly over the course of the next business cycle.

Carlsen (1997) tested this general hypothesis using a pooled cross-sectional time-series design for 18 OECD countries during the period from 1980 through 1992. His analyses led him to conclude that the "results are supportive of partisan theories," in that "government ideology has a significant impact on the deficit when unemployment is expected to be high or increasing but no significant impact when unemployment is expected to be low or falling" (p. 146). However, although generally supportive of the notions that the partisanship of a government alone does not have an effect on deficits and that left-dominated governments respond to high levels of unemployment in their fiscal policy and right-dominated governments do not, the results do not lend themselves to being interpreted as supportive of the other part of the hypothesis, namely, that left-dominated governments will run more restrictive fiscal policies in the absence of high unemployment.

Less supportive of the thesis that the link between partisanship and fiscal policy is contingent on the macroeconomic context is the earlier study by Cowart (1978). Although he concludes that the left is more responsive to unemployment than the right, the statistical results that he generated from his study seem less than convincing.[3]

3. In the table where Cowart (1978, Table 3, p. 436) reports statistical findings on a model of fiscal policy with partisan effects conditional on macroeconomic conditions, it would appear from the notation being used that he found evidence in support of this hypothesis in only one of the five countries for which he reports results.

In more recent times, the utility of an activist fiscal policy has been cast into doubt. For example, the link between fiscal deficits and monetary policy when growth in money has been a central policy objective tends to undermine the utility of fiscal policy. Also, the general slow down in economic growth across the OECD countries creates structural problems. But perhaps most important, many consider the significant increase in the degree of international integration as undermining national policy autonomy (Artis, 1987; Helleiner, 1994). The fact that these parameters have changed necessarily calls into question whether parties, regardless of their ideological preferences, would be willing and/or able to use fiscal policy in pursuit of their goals. Indeed, a widely accepted position is that parties today are confronted with severe constraints on the options that they have for domestic macroeconomic policy (see, e.g., Iverson, 1998; Kurzer, 1993; Scharpf, 1991). Peters (1991, p. 118) also suggests that the economic demands generated by the world market have weakened any link between partisanship and fiscal policy.[4]

Garrett and Lange (1991) set out to evaluate this position. They argued that although the effects of interdependence have not reduced partisan differences in terms of supply-side policies, nevertheless, they have altered government strategies in terms of their willingness to employ (as well as the effectiveness of) fiscal and monetary policy (p. 541). Because of interdependence, "governments no longer possess the autonomy to pursue independent macroeconomic strategies effectively, even if they were to seek to do so. In anything but the short run, the fiscal and monetary policies of governments of the left and the right should converge" (p. 543).

Garrett and Lange (1991) conducted limited cross-section analyses of the OECD countries to assess the validity of this argument. Although the results are supportive of a convergence in the monetary policy area, they do not support the argument in the fiscal policy area. Indeed, by their results, political systems with left governments and strong labor are quite distinguishable from those lacking both of these conditions. The former systems have the tendency to run smaller budget deficits than the latter (pp. 548-555).

Garrett's (1996, 1998) later work takes a much more comprehensive look at this question. Indeed, his argument goes against the grain of the contemporary conventional wisdom that the latitude for partisanship in macro-

4. In my own work (Cusack, 1997), I have examined the implications of internationalization and partisanship on government spending. The results of this analysis suggest that partisanship still plays the role that partisan theory predicts but that its impact has declined somewhat over time. Furthermore, internationalization has acted to slow the growth of the size of the public sector in the Organization for Economic Cooperation and Development (OECD) countries. Indeed, it may have actually worked to reduce it.

economic policy has been severely restricted if not eliminated. He points out that there are two very different expectations that one might have about the results of internationalization. The first, which he labels the "efficiency view," is the now standard argument that higher levels of internationalization undermine the ability and willingness of governments to carry out expansionary fiscal policies. The second view, which he labels that of "compensation," suggests that because of the market dislocations generated by internationalization, left-dominated governments are even more prone to pursue active fiscal policy to offset the costs of these dislocations.

Garrett's results, deriving from extensive analyses of the development of fiscal policies across a large number of OECD countries from the late 1960s through the early 1990s, are supportive of the compensation argument. In other words, the greater the degree of internationalization the more likely it is for national systems with a strong labor-left to generate higher levels of fiscal deficits. From this, then, one might conclude that internationalization has not fostered a reduction in partisan-based fiscal policy but rather has enhanced it.[5]

It would seem that no clear answers to the three questions posed at the beginning of this section can be provided on the basis of extant research. Recall that the first question asked which type of party was generally more prone to run a loose fiscal policy. Results have been mixed as to whether there exists a noncontingent connection between the partisanship of government and its fiscal policy. Evidence has been adduced to show that the left is more fiscally irresponsible than the right, that there is no difference between the left and the right, and that the right is more fiscally irresponsible than the left. The second question posed the issue as to whether left and right responded differently to macroeconomic problems in their fiscal policy. Some evidence has been produced to suggest that the left is indeed more prone to engage in countercyclical policy than is the right, but the weight of this is not overwhelming, particularly when one considers the information available that might answer the third question (i.e., Has the connection between partisanship and fiscal policy remained constant or has it changed over time, particularly in light of structural problems such as high unemployment?) and the changing international economic context within which fiscal policy is conducted. Here, again, one sees contradictory conclusions. There is the position that in more recent times, policy latitude has so diminished that there is no

5. An analysis that runs somewhat parallel to Garrett's (1996, 1998) work is to be found in Boix (1996). However, Boix's results are less straightforward than Garrett's. Boix finds that the effects of partisanship have shifted over time, with social democratic governments generally proving more fiscally conservative in the 1960s and the 1980s, whereas they tended to be more expansionary in the 1970s.

room for partisan preferences to be implemented. Then again, it is reported that despite the supposedly circumscribed room for maneuver, the left has followed a more fiscally restrictive policy than the right. And finally, there are indications that the left has increased its tendency to employ fiscal policy as an instrument to steer macroeconomic conditions.

One needs to consider why this disarray has come about. A number of factors may have caused the situation. There is little commonality across the research designs of these studies. Not only are the time frames (and country samples) often different but, more important, the models being estimated vary tremendously. They diverge in terms of what other factors, factors that might be simultaneously at work, are controlled for. They also vary in considering whether the expression of partisanship may be conditional on other factors, such as macroeconomic conditions and the international context. Very few, indeed, take these aspects under consideration. This suggests that there is a need to reconsider the role of partisanship in fiscal policy. To minimize the problems just outlined, any new effort should try to explicitly and encompassingly address these issues. The study should be as extensive as possible in terms of both the time frame and the countries included. It should also explicitly attempt to deal with other important factors as well as with the conditionality that may mark the expression of partisanship in fiscal policy. In the next section, such an effort is undertaken.

MODELING FISCAL POLICY

To explore the three critical issues outlined in the previous section, a set of three models have been formulated. The set of the models is intended to detect the ways, if any, in which fiscal policy is influenced by the partisan character of government while at the same time controlling for other factors that also would or could influence this policy. The way in which fiscal policy and the other variables in the models have been measured are first described. Then, the models themselves are introduced. Following that, the results from pooled cross-section time-series analyses of these models are presented. Data limitations restricted the analyses to a set of 14 countries with the time frame running from 1961 to 1991.[6]

6. The OECD countries included are Australia, Austria, Canada, Denmark, Finland, France, Germany (West), Ireland, Italy, the Netherlands, Norway, Sweden, the United Kingdom, and the United States. Belgium, Japan, New Zealand, and Switzerland are excluded because of the lack of data (for the whole or part of the period) on the fiscal variable. Greece, Spain, and Portugal are excluded because they were not democracies during part of the period under study. Size consid-

The public sector household balance (as a percentage of gross domestic product [GDP]) is the measure of fiscal policy employed here. The variable is the net lending item of the general government financial accounts. Net lending is the difference between government expenditures, both current and capital, and all government revenues. A surplus is positive net lending, whereas a deficit is negative net lending, in other words, borrowing. More encompassing than central government balances, it also includes the financial accounts of social security funds and regional and local governments.[7]

An index intended to capture the governing parties' collective position on a left-right scale has been constructed and introduced into the model. It represents what Gross and Sigelman (1984) describe as a skyline view of party systems. On the vertical dimension, the relative strength of, for example, a party within a coalition government is portrayed while on the horizontal dimension the ideological-programmatic position of that party is captured. The general formula for this measure of the political center of gravity for government takes the following form:

$$G = \sum_{i=1}^{n} T_i C_i$$

where T_i is party i's decimal share of cabinet seats and C_i refers to party i's position on a left-right continuum (Gross & Sigelman, 1984).

To operationalize parties' positions on the left-right continuum, the Castles and Mair (1984) codings of party's placement on a left-right scale have been

erations led to the exclusion of Iceland and Luxembourg. The time frame was dictated by considerations of data availability. Information on the fiscal variable is available for only a subset of the 14 countries prior to the 1960s. For some of the countries, other data were not available after 1991.

7. The data are drawn from the OECD's National Accounts, Detailed Tables, Vol. II (various years) and the OECD's (1996) diskette containing the Fiscal Position data set. In the ideal situation, it would be preferable to use the more restrictive definition of government deficit, that is, the balance for the central government including all transfer programs financed and organized by national legislation as well as the transfers to and from lower levels (regional and local) of government. Some of the articles cited in the last section claim to use the central government balance as their dependent variable; however, because they are using a series from the International Monetary Fund's (IMF's) (various years) International Financial Statistics Yearbook, they are actually dealing with cross-nationally incomparable data series. Sometimes the country series in this source are not from the consolidated central government accounts (i.e., they do not include social transfer programs, etc.), and sometimes they are. I have never observed that any of the authors were aware of this critical problem. Consolidated central government accounts can be obtained from the IMF's Government Financial Statistics Yearbook (various years). However, a serious drawback of this source, particularly in terms of this article, is that the series do not extend very far back in time. In the future, this should prove a valuable resource, but for now its use is limited. I should note that I have made an extensive effort, working with the disaggregated

employed. The Castles-Mair scale is based on expert codings; in organizing the data it has been modified to range from a low of 1 (*extreme left*) to a high of 5 (*extreme right*).[8] For purposes of this study, the index, which has been used successfully elsewhere (Cusack, 1997), has been rescaled by subtracting it from the value of 5. Thus, it has a natural 0 value (in this case, extreme right) and ranges up to a high of 4 (representing the extreme left).

To capture the impulse that would flow from the perceived need to manage aggregate demand, the unemployment rate of the previous year is included in all of the models. The data are based on national definitions and not on the OECD's standardized rates.[9]

The lagged fiscal balance also has been introduced. This has two advantages. First, it helps capture the inertia that often marks government policy making. In the end, both spending and revenue decisions shape the fiscal balance. Decisions and implementation in both areas are rarely made with alacrity. Second, in terms of modeling dynamics, whether in a single or pooled time series, the inclusion of such a variable has a number of methodological advantages (see Beck & Katz, 1995a).

Next, there are two variables that capture the built-in stabilizers of fiscal policy in all countries. One of these deals with programs representing transfers to and from the household sector (see, e.g., Cowart, 1978; Cusack, 1988, 1997).

Downturns in the labor market will increase the number of recipients, particularly in terms of unemployment compensation programs but also in social welfare and security programs. Simultaneously, any such downturn pushes program revenues below those anticipated and the combination of these two

government finance statistics tables (central, social security, and what often is labeled state and local) in the various annual issues of the OECD's National Accounts, Detailed Tables, Vol. II, to reconstruct historical series of consolidated central government accounts for the OECD countries. Unfortunately, the information provided (particularly with respect to transfers between government sectors) is insufficient to allow for the proper construction of consolidated central government accounts.

8. An extensive number of sources were used in collecting information on governing parties. The prime sources included Palaheimo's (1984) Governments in Democratic Capitalist States, numerous issues of the European Journal of Political Research, Europa Yearbooks, and Arthur Banks's Political Handbooks of the World.

9. The last year's unemployment rate and not the present year's rate is used because it seems more plausible to assume that significant changes in fiscal policy (by implication, changes in spending programs, and tax laws) would not come about instantaneously but rather require some time to implement. National definitions are used because these are the data that government officials would be attending to and not those that provide cross-nationally comparable information. The latter are clearly useful for describing and modeling processes internal to the labor market. They seem less relevant in the context of national fiscal policy-making processes. The sources of these data are various volumes of the OECD's (various years) Labor Force Statistics.

effects is to move the fiscal balance in a negative direction. Improvements in labor market performance automatically lower the number of transfer recipients and the public outlays going to them while increasing revenues through higher tax receipts generated by the income received by the newly employed. The joint effect of these latter two changes is to move the fiscal balance in a positive direction. To capture the impact of changes in transfer program costs, the variable, ΔT_t, has been introduced into the model. ΔT_t represents the change in transfer costs based on the change in the size of the pool of eligible people and the prevailing level of transfer program generosity.[10]

It is also necessary to control for gaps in actual and projected economic performance. Both the broad directions of government spending and taxation policies are fixed prior to their implementation. By implication, of course, the same holds for the balance between the two. But all of these aggregates, in the end, are simply plans based on assumptions regarding how well the economy will be doing during the year in which the budget is implemented. We have seen previously in this article that transfer program expectations can be off the mark because of changes, principally in the number of people who might unexpectedly gain or lose eligibility for these programs. General revenue collections can also be out of line with expectations, and this, too, will move the fiscal balance in one direction or another away from which it had been targeted. To capture this, which in many ways also reflects a kind of built-in stabilizer, a variable, *E*, which is a function of recent growth rate performance relative to the actual growth rate in the economy, is introduced into the model. Specifically, it is operationalized as the average growth rate for the three previous years minus the current growth rate, in which this difference is weighted by the previous year's ratio of total public spending to GDP.[11] A positive (negative) score indicates that growth was lower (higher) than might have been expected based on recent trends. With lower than anticipated

10. Note that the variable has been calculated in the following way:

$$\Delta T_t = RP_t * \Delta DB_t * GE_{t-1}$$

where $RP_t = RPC_t / RPC_{t-1}$, and RPC are equal to the ratio of the consumer price index to the gross domestic product (GDP) price index, *DB* is the percentage of the total population that is either unemployed or in retirement age, and *GE* is the ratio of the percentage of GDP involved in public transfers (to the household sector) to *DB*. Data for these variables come principally from OECD sources, including various issues of the OECD's Labor Force Statistics and its National Accounts, Detailed Tables, Vol. II. Note that because of the practice of linking expenditures in such programs to movements in a price index, a relative price term is also included within the calculation of this variable (Blöndal, 1986).

11. This index was first used by Roubini and Sachs (1989a, 1989b). Note, however, that here it is slightly modified by weighting it by the country's previous year's ratio of total public spending to GDP.

growth, the planned fiscal balance will necessarily be lower or more negative than had been anticipated, and vice versa. Therefore, the expectation is that the sign on the parameter for *E* should be negative.

Next, because of the argument that the growth of international capital markets and the accompanying ease with which capital can flow across borders has compelled all governments to rein in any tendency to engage in excessive fiscal deficits, a measure of the lack of restrictions of capital flows (*O* or openness) is also included. This index is based on the data developed by Quinn and Inclan (1997) and takes into account the lack of controls on the capital and current account as well as international agreements constraining the right to impose restrictions on the flow of capital.[12] The actual measure employed here is the annual average of the OECD members' openness scores.

In the first and simplest of the models to be evaluated, aside from the control variables, both the government and unemployment variables are introduced independently. The model takes the following form:

$$SD_{i,t} = \alpha + \beta_1 SD_{i,t-1} + \beta_2 \Delta T_{i,t} + \beta_3 E_{i,t} + \beta_4 O_{i,t-1} + \beta_5 U_{i,t-1} + \beta_6 G_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

If the simple expectation that ideology independently shapes fiscal policy of the government has any validity, one would expect to see that the parameter on that variable would be statistically significant and that its sign would reveal whether left (negative) or right (positive) has the greater propensity for conducting lax fiscal policy.

Such a result might emerge but, nevertheless, it is also necessary to assess whether the parameter on the government variable may be misleading in that either its sign and/or magnitude might be radically different if the unemployment and government terms are also introduced in a joint interaction form. To evaluate this, Model 2 has been specified in the following way:

$$SD_{i,t} = \alpha + \beta_1 SD_{i,t-1} + \beta_2 \Delta T_{i,t} + \beta_3 E_{i,t} + \beta_4 O_{i,t-1} + \beta_5 U_{i,t-1} + \beta_6 G_{i,t-1} + \beta_7 (U_{i,t-1} G_{i,t-1}) + \varepsilon_{i,t} \quad (2)$$

The parameters for the two constituent terms, government and unemployment, and for the interaction between the two can be interpreted in the following manner: First, the parameter for the government term alone describes the connection between the ideologically based fiscal stance of government when there is full employment, that is, when unemployment is at 0%. A negative coefficient would imply greater fiscal restrictiveness on the part of the right under conditions of full employment, whereas a positive coefficient

12. My thanks to Dennis Quinn for generously providing me with access to this data set.

would imply greater fiscal restrictiveness on the part of the left under conditions of full employment. Second, the parameter on the unemployment term would, given the scaling on the government index, represent the fiscal policy stance in response to unemployment on the part of a far-right government (0 on the index). The sign on the parameter would indicate how a far-right government sets its fiscal policy in light of unemployment conditions. Third, the parameter for the interaction of the two variables can be seen as the increment by which the parameter on partisanship (unemployment) is adjusted if unemployment (partisanship) is not equal to 0. The adjustment is greater the greater the value of the conditioning variable.[13] A parameter that was significantly different from 0 on this term would imply that parties respond differently in their fiscal policy to unemployment. A negative sign on the parameter would indicate that the left adopts a more countercyclical fiscal stance than does the right. The size of the parameter would reflect the magnitude of the difference in those stances.

Models 1 and 2 are based on the premise that partisan differences, if they exist, in the fiscal policies of the left and right have remained constant over the last three decades. One way of assessing the validity of this assumption is to specify a third model that introduces the possibility of differential effects of partisanship on fiscal policy across three periods. The three periods used here run from 1961 through 1972, 1973 through 1979, and 1980 through 1991.[14] To do this, three separate government terms, one for each period, and three separate interaction terms (between government and unemployment), again one for each period, are introduced. The model takes the following form:[15]

$$\begin{aligned} SD_{i,t} = {} & \alpha + \beta_1 SD_{i,t-1} + \beta_2 \Delta T_{i,t} + \beta_3 E_{i,t} + \beta_4 O_{i,t-1} \\ & + \beta_5 U_{i,t-1} + \beta_{61} (P_1 G_{i,t-1}) + \beta_{62} (P_2 G_{i,t-1}) + \beta_{63} (P_3 G_{i,t-1}) \\ & + \beta_{71} (P_1 U_{i,t-1} G_{i,t-1}) + \beta_{72} (P_2 U_{i,t-1} G_{i,t-1}) \\ & + \beta_{73} (P_3 U_{i,t-1} G_{i,t-1}) + \varepsilon_{i,t} \end{aligned} \tag{3}$$

13. Thus, Model 2 can be rearranged in the following two ways, which illustrate the conditional effects of U and G on SD for given values of G and U, respectively:

$$SD_{i,t} = \alpha + \ \ldots \ + \beta_5 U_{i,t-1} + (\beta_6 + \beta_7 U_{i,t-1}) G_{i,t-1} + \ \ldots$$

$$SD_{i,t} = \alpha + \ \ldots \ + \beta_6 G_{i,t-1} + (\beta_5 + \beta_7 G_{i,t-1}) U_{i,t-1} + \ \ldots$$

14. Stopping the first period at 1972 is intended to allow the supposedly stronger connection between partisanship and fiscal policy that prevailed in the Golden Age. With the collapse of the Bretton Woods system (in late December 1971), it is often argued that this link deteriorated. Starting the third period in 1980 is intended to capture the strong internationalization effects that supposedly came into play during the 1980s.

15. Note that the P terms included in the equation represent period dummy variables. Thus, P1 takes on a value of 1 for the first period (i.e., the years 1961 through 1972) and a 0 otherwise. P2 and P3 are the period dummies for Periods 2 and 3, respectively.

Substantial differences across the three period-specific government variables' parameters would indicate that the fiscal stance being adopted by governments under conditions of full employment have undergone change across the three periods. Likewise, substantial differences across the parameters on the three interaction terms would reveal that the pattern of partisan-based fiscal policy in light of different labor market conditions has undergone change throughout the three periods.

The models have been estimated with ordinary least squares. The residuals from each model were examined on a country by country basis to determine if there were any problems with autocorrelation. No such problem was detected. To correct for any heteroskedasticity, panel corrected standard errors (see Beck & Katz, 1995a, 1995b) were estimated and are used to generate the *t* statistics reported.

Table 1 provides the estimation results. Note that the three different models account for approximately the same amount of variance in the dependent variable when the R^2 measure is corrected for the number of parameters being estimated.[16] Across all three models, the coefficients for each of four variables, the lagged endogenous variable as well as those for *T*, *E*, and *O* (i.e., change in transfer costs, unanticipated growth performance, and openness, respectively), are generally identical. Thus, ignoring the independent effects of all other variables in the model, approximately 90% of the level of the previous fiscal balance is carried over into the present balance. A 1% (of GDP) increase in transfer costs acts to lower the balance by about 1% (of GDP), whereas a 1% decrease in those costs brings about a rise in the balance by 1%. Lower than anticipated growth performance decreases the balance (with a 1% shortfall in weighted anticipated growth generating a .3% of GDP decline in the fiscal balance), whereas better than anticipated performance increases it at the same rate. Note that in none of the models is the estimated parameter on the openness term statistically significant.

Across all three sets of estimates, the parameters on the government terms take on positive values that are statistically significant. The unemployment parameters are all statistically insignificant. However, the interpretations that one can give to these estimated parameters differ dramatically. In Model 1, the parameter estimate on the government term would lead one to conclude that, contrary to the conventional wisdom, left-dominated governments are far more fiscally conservative than are right-dominated governments and that governments do not respond to the level of unemployment in setting their fiscal stances.

16. Note, however, that the F statistics for the tests of the interactions effects models against the restricted (main effects) model are significant.

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

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

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

In Models 2 and 3, the interpretations are far more complex because they depend critically on the parameter estimates for the interaction of government composition and the prevailing level of unemployment. Thus, in Model 2, which postulates that the effects of government composition have been constant across the 31 years, one would conclude that under conditions of full or near-full employment, left-dominated governments are indeed more fiscally conservative than right-dominated governments. But at the same time, left-dominated governments have been more sensitive to macroeconomic conditions, specifically unemployment, and have pursued countercyclical fiscal policies. The results also suggest that right-dominated governments have been indifferent, at best, to considerations of unemployment in their fiscal policies. Indeed, the pattern of their behavior would indicate that they have pursued procyclical fiscal policies and have behaved, under conditions of full or near-full employment, in the "stubborn conservative" manner suggested by Persson and Svensson (1989).

In Model 3, an even more interesting pattern of results emerges. First, there appears to have been a movement in the direction of convergence—at

least in terms of the use of fiscal policy as partisan-based macroeconomic instrument. The results for the first part of the estimation period suggest rather strong differences in terms of partisan responses to unemployment. This diminished sharply in the mid- to late-1970s and continued through the third part of the estimation period, up until 1991. The results also lead to the conclusion that under conditions of full or near-full employment, although partisan differences in fiscal policy became muted in the 1970s, they regained some strength during the 1980s.

A few words about the substantive and statistical properties of the parameters associated with the interaction terms are in order. First, take the interpretation that one can give to the interaction parameters when dealing with them as representing the change in the slope of the endogenous variable, the fiscal balance, on governmental partisanship associated with a unit change in the unemployment level. In the first period, the effect of governmental partisanship that is conditional on unemployment moved from .64 at full employment to .30 at 3% unemployment. These effects were statistically significant (at the .05 level).[17] Thereafter, however, as the effects continued to diminish and turned negative, they lost statistical significance until unemployment would have registered a level of 14% or more, well beyond the levels reached during the first period. In the second period, the effects dropped from .38 at full employment to .24 at 2% unemployment, after which they lost statistical significance. They would not again have been significant until a 20% level had been reached—a figure well outside the range of observed values. Finally, in the third period, the effect dropped from .54 at full employment to .20 at 5% unemployment, after which it lost statistical significance, which would not have returned until unemployment would have been at around 19% (again outside the range of observed values) when its effect would have been approximately –.75.

Second, there is the interpretation that one can give to the interaction parameters when dealing with them as representing the change in the slope of the fiscal balance on unemployment associated with a unit change in government partisanship. Table 2 summarizes the effects and reports on the statistical significance of these effects. In reality, one can ignore, except for theoretical purposes, the columns labeled far right and far left. The far right column would be a government with a partisan center of gravity equal to 0, but the lowest observable value on the scale over the period is .89, which is quite close to the moderate right value. The highest observable value is 3.0 (i.e.,

17. Note that the computation of the standard errors on the parameter values here are based on the variance-covariance matrix used in the panel-corrected standard errors (PCSE) estimation.

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

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

Note: *t* statistics are in parentheses.

moderate left). No government could be characterized as far left during the years included in this study. In Period 1, center and moderate left governments had statistically significant coefficients whose values suggest commitments to pursuing countercyclical fiscal policy, with the center lowering the fiscal balance by .14% for every increase in unemployment and the moderate left doing it at a rate nearly twice as large. None of the parameters are statistically significant during the second period. In the third period, it is only the moderate left that has shown any sign of engaging in countercyclical policy. Note, however, the marked reduction in this commitment. Whereas in the first period every increase in unemployment was matched by a .26% drop in the fiscal balance, during the third period, the response rate was less than half of that, namely, only .11%.

The graphics contained in Figure 1 help to illustrate what has gone on in terms of the partisan basis of fiscal policy over the three-decade period. In the relatively successful time of the 1960s and early 1970s (see Figure 1, Period 1), left-dominated governments, when confronted with full or near-full employment, were particularly prone to taking a far more conservative fiscal stance than were governments dominated by the right. Indeed, the latter were relatively lax in their fiscal stance. However, left-dominated governments were very sensitive to unemployment levels and would sharply relax fiscal policy in response to deterioration in the labor market. Right-dominated governments remained unmoved by such deterioration.

After the breakdown of the Bretton Woods system and with the onset of the first oil crisis, fiscal policy became far less distinguishable in terms of partisan-based preferences than it had been in the previous decade (see Figure 1, Period 2). Certainly, there were smaller partisan-based differences in the response to unemployment, and the differences in fiscal stance at full or near-full employment were far less pronounced between the various types of governments. With the 1980s (see Figure 1, Period 3), no change in the partisan-based responsiveness of governments to unemployment conditions occurred but there was a tendency for more distinguishable fiscal stances

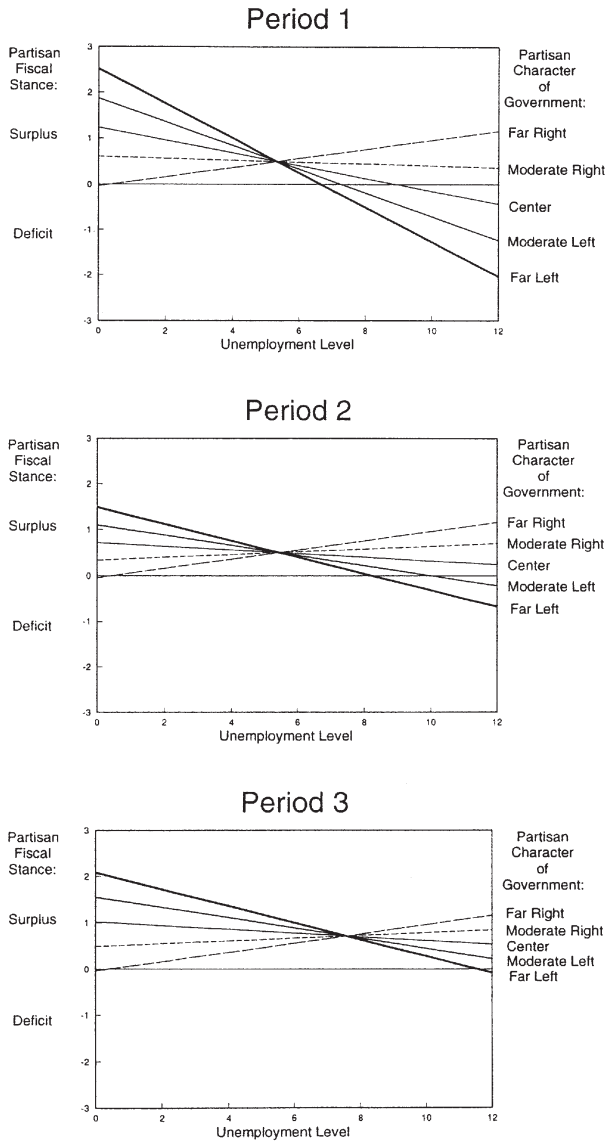

Figure 1. **Partisan fiscal stances across three periods.**

under conditions of full or near-full employment. The combination of these two tendencies was to push further out the point at which left-dominated governments would take a more relaxed fiscal stance than right-dominated governments.

Taken together, the results presented here help to clarify why so much inconsistency has marked the results of previous studies. The link between partisanship and fiscal outcomes cannot be revealed without taking into account the conditions under which policy is being made. If, for example, labor markets are quite tight, as they were in the 1960s, then there is every reason to expect that parties having an incentive to use fiscal policy as a tool for stabilizing aggregate demand, in other words, parties on the left, will be prone to run more restrictive fiscal policies than those on the right. In other periods in which unemployment is quite high, the reverse would be true. Leftist parties would be more likely to run looser fiscal policies than those on the right. And often there could appear to be no relationship between partisanship and fiscal policy because with a shift in the level of unemployment toward some intermediate value (as in the area where the lines cross in the graphics of Figure 1), a party of the left will have moved to a region shared by the right. But any further change in unemployment makes the left's fiscal stance distinguishable from the right. What matters is the direction of that change. In sum, the partisan character of government influences fiscal policy, but the nature of that influence is conditional on unemployment.

In addition, the strength of this conditional link has not remained constant over time. A research design that is based on the assumption that such constancy holds might then fail to detect a relationship. Furthermore, there are many other elements that need to be taken into account when trying to assess the nature of the link between partisanship and fiscal outcomes. So much of what finally transpires with the fiscal balance is contingent on factors that can not be fully known to those making policy, neither can they be fully controlled by them. To a significant extent, these factors are the product of many past decisions in which partisanship played a role, but they work their effect independently of what a governing party chooses to do in the short run.

CONCLUSION

Do partisan politics play a role in fiscal policy? Yes, and they will continue to do so. But that role has diminished. Contrary to the conventional wisdom, there is no evidence that the left has behaved in a fiscally irresponsible way by persistently and recklessly running deficits. If anything, governments on the

left have conducted more conservative fiscal policies under conditions of full or near-full employment than those on the right.

For the right to have behaved in this way is understandable. It reflects the interests of the right in an uncertain world where, through its own fiscal policy, it can tie the hands of a leftist successor. Furthermore, by creating deficits through tax cuts without proportional spending cuts, it can both please its natural constituency with the former while appealing to the interests of those who are advantaged by the latter.

The behavior of the left also reflects the interests of its constituencies. By its willingness to set its fiscal stance in response to macroeconomic conditions, specifically, conditions within the labor market, it has used, systematically, a policy tool that, at least within the Keynesian framework, works to the advantage of its supporters. By taking a looser fiscal stance under conditions of high unemployment, it may indeed help to stimulate demand and job creation; at the least, it does not make a bad situation worse. By tightening its stance during periods of high employment, it helps to prevent the economy from overheating and reduces the chance that public debt will become unsustainable.

But the partisan-based difference in fiscal policy stances has narrowed in recent decades. Although the left still continues to take a more conservative stance under conditions of full or near-full employment, its response when faced with moderate to high levels of unemployment has diminished relative to its historical standards.

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