Intro paragraph about political equality (Peters & Ensvik)

In recent years, academics have investigated to what extent policy outcomes reflect the preferences of different income groups to draw conclusions about political inequalities stemming from the influence of money on political power. The pioneering researcher at that time, Martin Gilens, was the first to gauge the preferences of different income groups towards proposed policy changes based on large amounts of survey data. Specifically, he applied a quadratic logistic regression technique to estimate the preferences for the respondents at tenth, fiftieth and ninetieth income percentile towards 1779 proposed policy measures which he used as independent variables to explain whether or not a policy was adopted (Gilens, 2005). He found that whenever the preferences of different income groups diverge, policy outcomes strongly reflect the preferences of the rich whereas they hardly ever reflect the preferences of the poor or middle-income US citizens. In his consecutive work, Gilens and Page (2014) contrasted alternative theoretical traditions to assess which set of actors have how much influence over public policy. Him and his colleague found that economic elites and organized business oriented interest groups have substantial impact on U.S. policy outcomes, providing support for the Economic-Elite Domination and Biased Pluralism Theory and against alternative explanations such as Majoritarian Electoral Democracy or Majoritarian Pluralism (Gilens & Page, 2014). Whereas the authors primary objective of the paper is to empirically unravel unequal income policy responsiveness within the U.S., the authors also point towards potential mechanism that explain why policy outcomes disproportionately reflect the interest of the rich. Namely, the structural dependence of political parties to finance political campaigns leading to a dependence of policymakers on donors and interest group as well as the lobbying by corporations and corporate interests that seem to be more aligned to the preferences of the rich (Gilens & Page, 2014). These findings substantially question the political equality of citizens living in the United States, a fundamental principle of democracy that requires each individual’s political influence to be equal, regardless of social status, income, educational degree, race, religion or any other characteristic. Political Equally is a necessary condition for ensuring that political power is fairly and justly distributed among all members of society and seen as essential for the functioning of democratic societies (QUOTE?). Whereas difficulties for any government to incorporate each citizens preferences at all times can be acknowledged, systemic biases in whose voices are being heard reflect fundamental flaws within any democratic states (Peters und Ensvik, 2015).

Given the severity of these findings a new branch of research has recently evolved led by political scientist who applied different variations of Gilen’s methodological approach, correlating the preferences of various social classes towards political outcomes (Elkj & Iversen, 2020.; Elsässer et al., 2020; Lax et al., 2019; Lupu & Warner, 2022; Schakel et al., 2020). The new wave of research has put forward further evidence of unequal policy responsiveness enriching the literature in terms of breadth and scope. Several studies have contributed to the breadth of the existing literature by analyzing whether unequal policy responsiveness exists in various countries outside the U.S. (Lupue & Castro, 2022; Lupu & Warner, 2022; Peters & Ensink, 2015; Schakel et al., 2020, Elsässer et al., 2020; Schakel, 2021) whereas other studies broadened the scope of the unequal policy responsiveness literature by focusing on educational and occupational inequalities (Elsässer et al., 2020; Schakel & Van Der Pas, 2021).

Examining the impact of the preferences of different social classes on the likelihood of a policy being adopted in Germany, Elsässar et al. (2020) find a strikingly similar pattern that show how policy outcomes correspond to the preferences of the richest ten and one percent of the income distribution, whereas the preferences of the median and the poor do not seem to be statistically significant in deciding whether a policy is implemented or not. Equally, the authors show that the likelihood of policy implementation is significantly associated with the preferences of higher-grade employees, civil servants, and the self-employed, whereas the correlation between the policy preferences of unskilled workers and policy change is small and insignificant (Elsässar et al., 2020). The authors conclude that institutional differences such as private campaign finance and the direct influence of private money in politics cannot solely explain why policy outcomes disproportionately reflect the preferences of the rich, since political campaigns are largely publicly funded in Germany.

Therefore, the representational bias must go way beyond large private donations, as previously has been continually argued for the U.S. (Elsässar et al., 2020).

Studies in other European countries including in Spain (Lupu & Castro, 2022) and in the Netherlands (Schakel, 2021) have found similar evidence that underlines the fact that.

representational bias is not a U.S. specific phenomenon and questions private campaign finance as the main causal driver behind unequal policy responsiveness.   
  
  
Given that all countries operate in political systems with heterogenetic institutional characteristics, the similarity of representational bias in favour of the rich is somewhat puzzling.

Other factors that could potentially explain what has been driving such bias have been explored by several authors. Peters und Ensink (2015) explored the effect of electoral participation on unequal policy responsiveness, testing whether higher participation in elections promotes more equal policy responsiveness. The idea behind this is that citizens that do vote are better represented than those who don’t, consequently policy outcomes are more likely to correspond to the preferences of voters. Assessing what determines political participation, scholars have found structural inequalities in who participates in elections with income being a central determinant in deciding turnout (Marien et al. 2010). Other structural inequalities that have been found include factors such as education gender and age (Marien et al. 2010). Logically, one might assume that policy outcomes might reflect the structural inequalities that determine participation. Accordingly, Peters und Ensink (2015) tested whether higher levels of turnout is associated with more equal responsiveness using a time series dataset with 25 European countries. Specifically, the authors regressed the preferences of low- and high-income groups interacted with the overall level of turnout on the total social expenditure as percentage of GDP as well as the change in social expenditure as percentage of GDP. The authors finds that the overall level of turnout can indeed partly explain the degree to which policy responsiveness is biased, although the systemic difference of the overrepresentation of high-income citizens does not disappear (Peters & Ensink, 2015).

Several studies have questioned the methodological approach of studies such as Peters & Ensink (2015) to draw robust conclusions about unequal policy responsiveness, since aggregate levels of social spending are highly influenced by economic as well as political factors that are beyond the reach of political decision making (Elsässar et al., 2020; Schakel, 2020; Elkjær & Iversen, 2020). When countries experience economic downturns that potentially result in high levels of unemployment, government spending on unemployment benefits will rise, making it difficult to understand whether a rise or drop in spending is linked to policymakers being responsiveness to the preferences of citizens or related to other exogenous factors. Scholars refer to this as the ‘dependent variable problem’ (Schakel, 2020, p.132).

Based on the similarity of unequal responsiveness that has been observed in countries with heterogenous institutional settings as well as the inability of existing literature to provide robust explanations for the causal mechanisms behind what might drives such unequal responsiveness, scholars have brought forward strong evidence that questions the overall interpretation behind the strong correlation between the preferences of the rich and policy outcomes. These authors argue that the reason why policy outcomes heavily reflect the preferences of the rich is not due to any kind of instrumental or structural power that wealthier citizens enjoy and use to impact political decision making, but instead, that the wealthier peoples preferences tend to be based on more accurate information about political and economic conditions and that are generally more aligned to the overall political situation of the state, leading to coincidental representation (Elkjær & Iversen, n.d.).

Elkjaer and Iversen (2020) illustrate, through simulations, that if political knowledge differs among groups, one might receive biased findings when investigating preferences for change and policy changes, which is what most research look at. Even though the middle class is politically significant and determines the long-run level of a policy, statistical models can yield the outcome that only the affluent's choices matter, if the rich are more informed than the lower and middle classes. To eliminate bias, they advise investigating long-run policy levels rather than short-term adjustments. Elkjaer and Iversen (2020) use data from 21 advanced democracies to test their claim on redistribution and social expenditure preferences. The findings are consistent, indicating that while short-term variations in spending appear to have been driven by the choices of the wealthy, long-run levels appear to have been determined by the preferences of the middle class.  
In attempt to understand the underlying mechanism that drives policy responsiveness, Elkjær (2020) investigates to what extend economic elites are dominating the democratic decision making in Denmark, one of the most equal countries in the world, and found a puzzling similarity to previous studies in the United States and Europe that shows how political representation increases monotonically with income. The Danish political system bears the most favourable condition for political equality based on some of the highest levels of redistribution and economic equality, a high turnout rate in elections averaging around 86% as well as state funded political parties; therefore, the author rules out such causal mechanism that were previously assumed to be driving unequal responsiveness, but instead, argues that unequal responsiveness may only reflect asymmetries in information (Elkjær, 2020). The author elaborates that the affluent are more involved in political decision and face a higher incentive to be well informed on political and economic issues in comparison to their peers. Specifically, Elkjaer finds that the affluent are much more likely to engage in political discussions in comparison to the poor, even after controlling for the overall level of education. Additionally, the affluent are more informed about the general spending flows of the government household (Wlezien & Soroka, 2011). Proponents of the informational asymmetries consequently argue that when government adopt optimal fiscal policies, the affluent will update their preferences more in line to such policies, leading to coincidental representation of the rich, instead of, as many scholars claim, a causal mechanism in which higher income of citizens results in more political power. As previously mentioned, scholars that studied educational inequalities in representation have also shown how political outcomes are also much more aligned to the preferences of the highly educated (Elsässer et al., 2020; Schakel & Van Der Pas, 2021), something that Elkjaer and Iversen interpret as further evidence in favour of the informational asymmetry hypothesis.   
Concluding, the authors state that information conditions preferences, and as long as information is rising with higher income, informational asymmetries will ultimately translate into unequal policy responsiveness, which also explains how scholars have found such similar degree of economic-elite domination across countries with such heterogenous political landscapes (Elkjær & Iversen, 2020; Elkjær, 2020).

(MAYBE it’s the other way around, rich people align their preferences more to political outcomes)

Whilst there is reason to believe that political information does rise with income, the results of studies that have investigated the impact of partisanship, heavily question whether differences in information can solely explain why policy outcomes heavily reflect the interest of the rich (Mathisen et al., 2021; Schakel & Burgoon, 2022). Given that all studies that examine unequal policy responsiveness investigate such within representative democracies, in which elected officials ultimately decide political outcomes, the political orientation of the elected would intuitively seem a deciding factor that conditions which specific policies are being implemented. Arguably, one might assume that left leaning parties that are generally associated with a higher preference for redistribution might be more aligned to the preferences of the lower income population, since the core constituencies of Left parties have often been characterised as risk-exposed wage-earners with relatively low incomes (Garret, 1998). Assessing the impact of partisanship on representational income bias, Lax et al. (2019) discover that wealthy influence is overestimated and dependent on partisanship—when senators must choose sides, party trumps the wallet. Republicans are more likely to give the wealthy what they want, but only if Republican people support the wealthy. As a result, the authors conclude that partisanship generates, modifies, and constrains rich influence (Lax et al., 2019). Investigating the effect of government partisanship in Germany Sweden Norway and the Netherlands, Mathisen et al. (2021) find that the representational gap between the preferences of the richest 10 percent and the poorest 10 percent is heavily mediated by the number of cabinet seats that left-wing parties hold. Specifically, the authors observe that when Left parties hold all cabinet seats, there seems to still be a slight bias in favour of the wealthier citizens, however, when Left parties hold no cabinet seats, the bias in favour of the affluent grows substantially (Mathisen et al. 2021). The authors additionally question whether the 1990s reorientation of Social Democratic parties resulted in a decline in policy responsiveness to the desires of low- and middle-income individuals under Left government involvement. The reorientation of social democratic parties in the 1990s, often referred to as the 'Third Way', was characterised by a move away from traditional left-wing ideologies towards a more liberal, market-friendly approach, associated with greater reliance on market mechanisms to promote economic efficiency, limit public deficits, reduce redistributive policies, and make the labour market more flexible (Green-Pedersen et al., 2001). Interestingly, Mathisen et al. (2021) found that before the reorientation of social democratic parties (between 1960 and 1998), left-wing governments were equally responsive to the preferences of low and middle income citizens on economic and welfare issues, but after the 1998 period, the effect of partisan conditioning on policy responsiveness disappears with regards to economic and welfare issues. The evidence brought forward brings in to question to what extend unequal policy responsiveness is merely driven by asymmetries in information. As the authors argue, why should the wealthy be less informed to elite discourses under Left-leaning governments, and particularly, if it would be information that drives policy responsiveness, why would low- and median-income citizens be better informed about economic and welfare issues before the 1990s (Mathisen et al. 2021)?

In sum, partisanship and political orientation does seem to play an important role in conditioning the effect that income has on political outcomes. However, whilst the representational bias in favour of the affluent seems to be mediated by partisanship, it continues to exist even under left-leaning parties. The question therefore arises as to why such a bias should persist, even among left-wing parties that like right-wing parties, cater to the policy preferences of their core constituencies (Garret, 1998)?

In a meta-study of 25 studies with over 1163 estimates of responsiveness, Elkjaer and Klitgaard (2021) find that the collective research generally suggests that policy outcomes are more in line with the preferences of the rich, but that the results of the estimates vary quite significantly. The divergence can partly be explained by partisanship, but more crucially by model specification: differences in responsiveness are far more pronounced when analysed in a statistical model that combines the preferences of various income groups, rather than using separate models for each income group. Specifically, when the preferences of high- and low-income groups are incorporated in the same statistical model, the most severe types of differential responsiveness, where the coefficient of the affluent is positive (and significant) and that of the lower-income group is negative, are twice as likely to be detected, suggesting that the multivariate model is inadequate for accurately representing degrees of differential responsiveness when preferences are highly correlated (Elkjaer and Klitgaard, 2021). According to Enns (2015), even when preferences differ, there might be significant "coincidental representation" of lower-income groups, because different income groups often share preferences towards many political issues. Hence, it is important to note, that even under a high degree of unequal representation, the preferences of the lower income groups are often likely to be coincidentally represented, making it difficult to correctly depict varied levels of responsiveness in multivariate analysis. According to Peters and Ensvik (2015), as the preference gap between rich and poor grows, so does uneven policy responsiveness in favour of the wealthy; however, this bias diminishes whenever preferences are more aligned.

So far, there has been very little evidence that unequal responsiveness in favor of the affluent varies across political economic contexts (Bartels, 2017). Indeed, the similarity of findings across the United States and other countries is still puzzling most researchers up to date (Elkjær & Klitgaard, 2021; Elsässer et al., 2020.; Mathisen et al., 2021). According to Elkjær & Klitgaard (2021), the parallelism might be interpreted as proof that some degree of political inequality is inherent in liberal capitalist democracies, however, the authors nevertheless expect to see more cross-national variation, given the diverse political-economic landscapes of the United States and Europe. Elsässar et al. (2020) argue that the fact that we observe unequal responsiveness in countries such as Germany and Sweden, heavily questions the relevance of campaign finance as the primary source of unequal representation globally; one would expect less unequal responsiveness in countries where elections campaigns are financed, for the, financed by public subsidies. Other scholars argue that the same argumentation holds for electoral participation as a causal mechanism that drives unequal responsiveness, as Sweden, Germany, Denmark and the Netherlands have higher participation in elections, however policy responsiveness does not appear to differ significantly (Mathisen et al., 2021). Investigating the literature of unequal responsiveness,

Elkjr and Klitgaard (2021) agree that it remains perplexing to see such similar degree of affluent bias in Germany and Denmark compared to the United States, given that the European countries have less income inequality, stronger labor unions, higher turnout rates, and rely less on private campaign finance. The authors argue that although partisanship seems to be a crucial factor that is able to explain some of the extend of affluent bias, the observed differences in income biases across Democrats and Republicans are much smaller than theories of democracies would predict. Finally, whilst much literature has found substantial evidence to show the extent of which policy outcomes reflect the preferences of different income groups, the remains a significant gap in the literature which elaborates the causal mechanism that can explain why policy outcomes correspond so strongly to preferences of the affluent.

To answer why policy outcomes seemingly reflect the interest of the rich, the literature has primarily focused on institutional (e.g. reliance on private campaign finance) and political differences (e.g. partisanship & voter turnout) between and within countries. However, so far there remains a gap in assessing the role of structural economic conditions that underly capitalist democracies. Assessing the role of fiscal constraints on policy responsiveness in Geramany, Elsässar and Haffert (2022) have found that fiscal pressure, measured by the share of government spending spend on tax burden, heavily reduces policy responsiveness for all income groups. The authors assumed that fiscal pressure reduces the governments' ability to respond to the preferences of the poor more than affluent preferences, given their greater reliance on public social protection and social spending. However, the authors found, contrary to what they expected, that fiscal pressure diminishes the influence of all social groups, whereas when fiscal pressure declines, policy outcomes are more aligned to higher status social groups such as business owners and civil servants. Therefore, the authors conclude that inequality of responsiveness is not a result of fiscal pressure, but instead, the bias is more pronounced whenever states have more capacity to respond to the preferences of specific interest groups. Nevertheless, structural economic conditions seem to tell an important story about how responsive policymakers are to citizens demands.  
To limit fiscal pressure, governments, theoretically, could reduce the dependence on debt by raising taxes. However, some scholars argue that the increased mobility of capital has restricted governments capacity to tax (Genschel & Schwarz, 2013). Schwank (2015) argues that increases in capital mobility force governments, regardless of their political ideology, to lower levels of taxation for mobile capital which results in a shift of the tax burden to labor and consumption. Therefore, the increase in capital mobility that came along in the process of financial globalization has shifted the power balance in favor of capital holders (Clift et al., 2004). By undermining the states' capacity to tax and redistribute, capital mobility has compromised governments' ability to respond to citizens demands (Piketty, 2014). Even though all capitalist democracies are embedded in global financial market, no research has so far questioned to what extend differences in capital mobility affect policy responsiveness. Particularly, given that the shift in the tax burden favours capital owners, one might assume that structural power of capital resulting from capital mobility could potentially lead to policy outcomes that are more in line with the preferences of the affluent. This paper attempts to answer whether capital mobility has led to the frequently observed unequal responsiveness by looking at cross-country differences in the changes of the welfare state. To that end, this paper will investigate past literature on mechanisms that show how capital mobility could potentially influence policy responsiveness and specifically, lead to policy outcomes that are more aligned to the preferences of the wealthy.

# Capital Mobility

“We must recognise that the UK is situated in the middle of an active global market

for capital—a market which is less subject to regulation today than for decades.

An expansionary fiscal or monetary policy that is at odds with other economies

in Europe will not be sustainable for very long. To that extent the room for

manoeuvre of any government in Britain is already heavily circumscribed.” (Blair, 1995: Mais Lecture)

Tony Blair, former prime minister of the Labor Party, refers to the constrains on the state’s ability to decide on its fiscal and monetary policy independently. As the United Kingdom is embedded in a market in which capital can move freely, governments choose their economic policy by not only responding to the publics preference, but also to appeal to the interest of capital. This is what scholars often refer to as ‘policy convergence’, a state in which the international mobility of capital can ‘exit’ any economy which therefore subjects’ government policy to international competition (Mosley, 2000). Since governments are dependent on the access to capital and investment, they need to sell their economic policies to investors and act at least partially in the interest of capital. The structural power of capital therefore has the potential to influence elected officials to implement policies that are less in line with the preferences of voters, but instead, serve to attract capital and investment (Gill, 1988). Following this line of argumentation, when capital is less mobile, its structural power is reduced since the potential threat of leaving diminishes. This results in less competition between nations' economic policies in order to attract capital, and therefore creates more space for policymakers to be responsive to their citizens.   
  
As Blair points out, the active global market in which the UK is situated circumscribes the room to for manoeuvre. Capital mobility is said to reduce the autonomy over other macroeconomy policy options (Mosley, 2005). To answer whether capital mobility can explain the similarity of unequal responsiveness observed in many capitalist democracies, it is vital to understand whether the political outcomes that result from more capital mobility correlate stronger to the preferences of the rich than to the preferences of the poor.   
Since governments are structurally dependent on access to capital, they are required to maintain stable rates of inflation and low budget deficits to preserve credibility on financial markets and to secure cheap access to capital (Gelleny, 2001; Mosley, 2000). Whenever capital is more mobile, the actual or apparent threat of capital flight that policymakers perceive is likely to increase. Subsequently, some scholars argue that governments are inclined to prioritize stable rates of inflation and fiscal discipline over low levels of unemployment (Clift et al., 2004). Scholars expect the fiscal stance of governments to become more conservative, as governments liberalize their capital regimes (Heller, 1997). A few researchers claim that capital mobility eventually results in a wide range of convergence of policy outcomes towards smaller governments, lower levels of labour rights and a decline in the welfare state such as reduced social security (Mosley, 2000).   
As Elsässar and Haffert (2022) elaborate, the poor are more reliant on welfare spending as well as an overall strong fiscal state, and as a result, they frequently reject measures that reduce fiscal spending or welfare retrenchment. Overall, the less affluent are said to have a higher preference for redistribution and state intervention in comparison to the wealthier citizens (Beramendi et al., 2015). Whenever governments enact contractionary policies to reduce inflationary pressure or to maintain financial market credibility, we would expect this to go against the preferences of the less affluent and therefore likely to increase unequal responsiveness. The same holds whenever governments prioritize fiscal discipline over low levels unemployment, considering that the working class place a higher emphasis in fighting low levels of unemployment rather than maintaining stable rates of inflation (Jayadev, 2018).

Higher capital mobility might also result in other fiscal policy outcomes that are relatively more aligned to the preferences of the rich. Fearing that multinational corporations will cease investing and operating in the domestic economy, scholars that argue in favour of the policy convergence theory predict that governments will enact measures to promote a favourable business climate, such as reduced taxes and deregulation (Gelleny, 2001). Accordingly, it also predicts a ‘race to the bottom’ dynamic in which countries are engaging in harmful tax competition to attract investment. Indeed, scholars that have analysed the statuary corporate tax rate of 13 European countries found that on average the tax rates have decreased from 49.2 percent in 1983 to 27.2 percent in 2008 (Overesch, 2011). Some have argued that the downward trend of taxes among OECD countries can entirely explained by the tax competition for mobile capital (Devereux et al., 2008). Generally, the affluent and the poor seem to have a higher preference for expansionary fiscal policies, such as tax cuts, in comparison to contractionary fiscal policies (Elsässar & Haffert, 2022). With regards to corporate tax cuts, the believe of a large part of the population seems to believe be that corporate tax cuts will result benefit most citizens (Bartels, 2005). However, Nallareddy (2018) has shown that cutting corporate tax often results in higher income inequality. Wh  
  
Bartels, L. M. (2005) Nallareddy 2018  
  
we show that cutting state corporate tax rates leads to increases in income inequality.  
  
  
More in line with the rich, also seem to contribute to inequality, inequality   
  
If we follow noam chomskys death spiral, more inequality translates to more political power for the rich .

Similar to Elsässar and Hafert, there is reason to believe that capital mobility actually

Poor vs Rich under Capital Controls

*return to stable rates of inflation or*

stable rates of inflation and low budget deficits to preserve credibility on financial markets and to secure cheap access to capital

***Indeed, there is good reason tobelieve that fiscal pressure structurally reduces the political capacity to respond to the preferences***

***of the poor more strongly than the capacity to respond to the rich, since the less privileged are***

***more in need of public social protection and a strong fiscal state. Since the lower classes are***

***most dependent on this spending, they will be most fervently opposed to cutting such spending.***

***People with higher income and higher social status can much more easily rely on private markets***

***and do not necessarily need public expenditure. Hence, they will be less opposed to cutting such***

***expenditure. As has been shown by several authors, workers and lower income groups indeed show***

***stronger preferences for re-distribution and state intervention than the better-off (Beramendi et al.,***

***2015) – and preference differences become even more pronounced when people are confronted***

***with fiscally induced trade-offs (Busemeyer & Garritzmann, 2017; Häusermann et al., 2021).What***

***is more, people with lower incomes and low subjective economic well-being tend to oppose fiscal***

***consolidation measures more strongly than the better-off (Hayo & Neumeier, 2017; Stix 2013).***

***Following this line of reasoning, fiscal constraints should structurally reduce responsiveness to the***

***poor more strongly than responsiveness to the rich. Accordingly, we hypothesize that***

*The pattern is, second, very different for contractionary policies. While lower occupational*

*groups (skilled and unskilled workers, lower-grade employees) generally oppose these policies,*

*higher occupational groups sometimes support them. Indeed, of all four policy types, gaps*

*in support between lower and higher occupational groups are largest when spending cuts are*

*concerned. Whereas spending cuts are mostly rejected by the working class, they will often*

*be in line with the preferences of business owners. Tax increases, on the other hand, are most*

*strongly supported by civil servants, but opinion differences among all other occupational groups*

*are relatively small.16*

*Taken together, this preference pattern suggests that analyzing inequality in responsiveness*

*requires particular attention to contractionary proposals, and in particular spending cuts, since*

*disagreement is highest in these policy areas.*

*When confronted with*

*budgetary trade-offs, citizens strongly dislike cuts in government spending and tax increases*

*(except for top income taxes), while they care less about public debt (Bremer & Bürgisser,*

*2021). Enacting contractionary policies to reduce deficits is thus often considered as a form*

*of responsiveness towards markets instead of citizens (Streeck, 2014).*

Compensation hypothesis

In contrast to the policy divergence hypothesis that predicts less government intervention and a decline in social welfare, Rodrik (1998) has found significant evidence that countries economic openness is positively related to countries social welfare state. This is the second hypothesis we will explore in this paper known as ‘policy divergence’ or also referred to as compensation hypothesis. The hypothesis states that a highly open country in economic terms, increases the competition and exposes domestic workers to higher risk (Sen & Barry, 2017). As the workforce is exposed to the competition to the world market, citizens will demand higher levels of government intervention and social protection. Indeed, scholars argue that the growing economic insecurity among a broad base of the population will increase the citizens demand for domestic compensation (Sen & Barry, 2017). 6

Governments therefore are likely to redistributive wealth and social risk, to counterbalance the effect of risk and competition of an open economy. Additionally, some academics argue that governments are not only increasing social spending to respond to public pressure, they are also inclined to support low-skilled workers in order to enhance their competitiveness (Rodrik, 1998). Countries with more open economies, tend to also have higher rates of industrial concentration that promotes higher unionization and an increased scope of collective bargaining that result in government transfer via social protection, unemployment benefits and job training (Rodrik, 1998).

The policy convergence hypothesis implies that governments lose the ability to choose their economic policies autonomously, as external market forces infringe the state’s agency. It can be visualized as a top-down constraint that limits the ‘room for maneuver’ of policy makers to respond to the democratic preferences (Mosley, 2005). On the contrary the compensation hypothesis, expects that an increase in economic openness actually empowers policy makers, through pressures that work from the bottom up, as governments seem to respond to citizens demand of compensation. It is important to note at this point that the policy convergence hypothesis and the compensation hypothesis are not mutually exclusive, per se.

Mosley (2000) has put forward a more nuanced explanation in the convergence-divergence debate by analyzing how financial market interest actually restrict governments economic policy. Even though the author confirmed that financial markets do ‘punish’ governments for overall macro indicators including high levels of inflation and budget deficits, the markets do not respond to specific changes in fiscal policy, which led to the conclusion that governments still have ‘room to maneuver’ in terms of social welfare and other policies. This paper aims to explore the dynamic of how economic integration influences governments responsiveness and the citizens perception on their ability to have a say in policy.

Economic globalizations impact on external political efficacy

Only few authors have tried to examine the question of how economic integration actually effects the relationship between governments and their citizen (Ezrow, 2014; Steiner & Martin, 2012). Steiner & Martin (2012) have partly addressed this question by analyzing the relationship between economic integration and electoral turnout. Interestingly, they found that economic integration has reduced the overall range of party’s economic position, that in turn resulted in a decline in voters’ turnout, providing partial evidence in favor towards the policy convergence hypothesis. Ezrow (2014) found that party representatives of countries 7

that are highly integrated in the world economy tend to be less responsive to citizens preferences. The author underlines that international aspects used to be subordinated to domestic actors and conditions, however now global economic are now the major driving force for policy outcomes. The author finds evidence that that governments only respond to the changes in the left-right shifts in the mean voter position when the national economy is necessarily isolated from the world economy, providing supplementary evidence in favor of the policy convergence hypothesis. This paper aims to further the research and investigate whether an increase in economic globalization has changed their perception of governments responsiveness to their demands. If the policy convergence hypothesis holds, meaning that governments become less responsive to voters as they have less ‘room to manevour’, we hypothesis that economic globalization decreases the external political efficacy, reducing the citizens believe that they have a say in what governments do.

P\_o\_l\_i\_t\_i\_c\_a\_l\_ \_p\_a\_r\_t\_i\_e\_s\_’ \_p\_o\_s\_i\_t\_i\_o\_n\_i\_n\_g\_ \_o\_n\_ \_e\_x\_t\_e\_r\_n\_a\_l\_ \_p\_o\_l\_i\_t\_i\_c\_a\_l\_ \_e\_f\_f\_i\_c\_a\_c\_y\_ \_

Some of the more recent literature on the policy convergence and compensation hypothesis has been written about the effect economic globalization has on political parties (Adams et al., 2009; Haupt, 2010; Sen & Barry, 2017). Adams et al. (2009) found evidence that economic conditions related to globalization, including Foreign Direct Investment and trade, have a significant impact in changing the political positions of parties. Haupt (2010) found evidence in favor of the compensation hypothesis, as increasing levels of capital mobility and imports were highly correlated to a leftward shift in parties’ ideology, independent of left or right-wing parties, showing that parties are equally shifting their economic policy in response to economic integration. Some evidence therefore suggests that parties lean towards increasing government intervention in the economy, whenever it is more exposed to the global market (Haupt, 2010). If we know that parties adjust their political positions, when countries are exposed to higher levels of globalization, it is important to address how this shapes citizen in their relationship to governments.

Empirical research suggests that the pre-election policy program are reliable indicators of the policies that will be pursued after the election (Haupt, 2010). Therefore, we can assume that governments will be relatively ‘honest’ in terms of their economic policy agenda. There are several ways of how economic integration might affect the policy programs of political parties. If the policy convergence hypothesis holds, we would expect governments to acknowledge their limited ability for government intervention, similar to Tony Blair’s 8

announcement. We would expect a shift of economic political parties towards less government intervention towards free market policies from both parties.

However, based on the evidence mentioned above, there is a reason to believe that governments will actually shift their economic policies towards more government intervention. If the compensation hypothesis will hold, we would expect that an increase in economic openness would affect citizens perception on governments responsiveness less, if governments adjust their policy positions. Consequently, we hypothesis that the change in political party program can mediate the effect that economic openness has

This paper attempts

investigate

extend financial to contribute

the underlying mechanisms that

**Build an argument on, that the Left Way was a Response to Globalization… therefore its Globalization that has triggered a decline a reponsivness.** The proponents of the Third Way argued that the old-style social democratic policies of the past were no longer effective in addressing the challenges of globalization, economic liberalization, and social change.

1. Globalization: The Third Way acknowledges the realities of globalization and the interconnectedness of economies. It seeks to navigate globalization's challenges and opportunities, striving for a balance between economic competitiveness and social cohesion.
2. Interestingly, Mathisen et al. (2021) found that Left-leaning governments were equally reponsive to the preferences of the low- and middle income citizens in economic and welfare issues before the reorientation of the Social Democratic parties (between the years 1960-1998). Additionally,

Andere Paragraph building on Elsässar et al. that the interest burden has severely hampered the unequal policy responsiveness, financial globalization excallerates fiscal discipline, due to a fear of capital flight.

One argument against this is that there has not been any scientific proof of how political outcomes relate to information, consequently, by now this is more theoretical then empirical.

However,

Indeed regarding the famility of the results ELKS

might result in high

*Studies focusing on the link between constituents’ preferences and policy outcomes also*

*point to representational biases in Europe, but their findings do not allow for robust*

*conclusions about unequal policy responsiveness, either. Peters and Ensink (2015).*

*example, compare preferences on redistribution with aggregate levels of social spending*

*(as a percentage of GDP).*

*Yet, as indicators such as social spending are highly influenced*

*by factors beyond the immediate reach of political decisions – such as GDP growth or*

*the unemployment rate –, it is hard to distinguish whether a preferred change in social*

*expenditure was affected by responsive behavior or by exogenous factors.*

*Dependent variable problem.*

Paragraph über Preference Difference ??

*Gilens*

*(2011, 2012) argues that a preference overlap between the rich and the poor*

*makes policies more responsive to the poor by chance: ‘any association*

*between preferences and policy outcomes is likely to reflect the extent to*

*which their preferences coincide with those of the affluent’, and finds that a*

*bigger preference gap is associated with a bigger gap in responsiveness to the*

*extent that ‘responsiveness to the less well-off Americans is virtually nonexistent’*

*(Gilens 2011: 254). Thus if the government systematically follows one*

*group over the other, any responsiveness to the disadvantaged group is mostly*

*due to coincidental correspondence in preferences. This would only be true,*

*however, if the difference in income indeed matters in levels of responsiveness*

*– if income does not matter, we expect a responsiveness gap between the rich*

*and the poor to increase only when one of these groups is closer to the preferences of the middle-income group.*

*However, as argued above, we theorise that income matters and therefore*

*expect that with greater preference heterogeneity, the gap in responsiveness*

*also becomes greater. This leads to the following (conditional) expectation:*

*The models in this table now also include the interaction effects between*

*support for redistribution and the difference in preferences between the two*

*income groups. It shows that when this difference is non-existent neither of the*

*income groups has a significant influence on levels of social spending. In this*

*situation, we thus do not observe differential responsiveness. The interaction*

*effects suggest, however, that when the preference gap between the two groups*

*increases, the effects of both groups increase: the effect of support of the*

*lower-income group increases negatively, while the effect of support within the*

*higher-income group increases positively*

*due to coincidental correspondence in preferences.*

*to what extent the preference gap between the rich and the poor*

*any association*

*between preferences and policy outcomes is likely to reflect the extent to*

*which their preferences coincide with those of the affluent’, Thus if the government systematically follows one*

*group over the other, any responsiveness to the disadvantaged group is mostly*

We examine the effects of popular support for government

welfare effort on social expenditure (policy output), and thus focus on social

policy as a political issue.

Multicollineratiy