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Neighbors and Friends: The Effect of Globalization on Party Positions

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Abstract This paper seeks to examine the effect of economic, social and political globalization on parties' overall positions. Our empirical analysis is based on a panel model of 34 political parties in 17 west European countries between 1970 and 2010. We find that both economic and social globalization have a significant effect on parties' positions, whereas political globalization seems to have less of an influence. However, the effect of globalization varies depending on the type of political party. Right-wing parties move leftward in response to all types of globalization while left-wing parties do not alter their position, or move rightward. Moreover, we find strong evidence about party's influence of the positions that parties in other countries take. These findings give support for the existence of parties' convergence in the face of globalization with right-wing parties coming closer to left-wing parties, rejecting the established in the literature argument of the so-called "neoliberal convergence".

Keywords party's position • globalization • partisan politics • panel data

JEL Classification H5 • F15

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1 Introduction

The positions that political parties strategically choose have been the focus of debate in both economics and political science. Most of the studies on parties' positions have empirically tested the theoretical model of Downs (1957). The general finding is that parties in industrialized democracies respond to voters' preferences (e.g. McDonald & Budge, 2005; Adams et al., 2004). Besides voter preferences, however, other factors related to economy and society can influence party competition.

A growing literature has found that such a factor is higher economic integration, also referred to as globalization (Adams et al., 2009; Ward et al., 2011). Economic integration, however, is only one aspect of a multifaceted phenomenon, i.e. globalization. Developed economies, especially in Western Europe, have undergone substantial changes in the social and political realm which may have influenced equally the position of political parties. With this paper we contribute to the existing literature by examining the effect of various aspects of globalization on the positions that parties take in their election programs.

Even though globalization can have a direct effect on parties' positions, it can also have an indirect effect by creating common ideological trends among parties in different countries (Kaiser, 2009). For this reason, in our empirical model we add a variable that captures the positions of ideologically close parties in other European countries. As social, political and economic ties among European states become more pronounced, voters might be influenced by the behavior of their "neighbors". At the same time, parties might adopt positions that their peers in other countries adopted. To our knowledge this is the first study that examines this effect for parties' positions, whether they are in government or not.

Our results shed light in two main hypotheses. The first one suggests a significant relationship between party positions and both economic and social globalization. Many studies have shown a significant effect of economic and social globalization on individual party's policies (e.g. Rodrik, 1998; Dreher et al., 2007).¹ They have shown that globalization, either economic or social, moves parties leftward in some policies (e.g. increase social spending) and rightward in others (e.g. increase labor tax rates). Since these two types of globalization affect some parties' policies we expect that they also affect parties' overall position. It should be mentioned that a party's overall position is considered more important than an individual

¹ The findings of these studies are discussed in detail in Section 2.

party's policy in the sense that it includes all the optimal policies of a party and not only a specific one.

The second hypothesis is related to another strand of the literature which investigates the partisan differences between left-wing and right-wing parties. Numerous studies on Partisan Theory suggest that left-wing and right-wing parties have different response to economic conditions such as inflation, unemployment and economic integration (e.g. Hibbs, 1987; Herwartz and Theilen, 2014). In addition, some studies have found that economic globalization leads parties to converge in particular policies, such as economic policies (e.g. Dorussen and Nanou, 2013; Ward et al., 2015). However, they do not identify the direction (left-right) towards which the parties move. According to our second hypothesis parties of unlike ideological groups move in a different direction in an increase of economic or social globalization. Specifically, we argue that parties tend to converge in their overall position, with right-wing parties moving leftward. This argument is based on the fact that globalization makes the positions of left-wing parties more attractive to voters; either because they face economic globalization as risk for their income stability (Rodrik, 1998) or because social globalization makes society more flexible to social issues.

We test the above hypotheses through an empirical analysis which builds on a panel dataset which includes 34 political parties of 17 Western European countries, over the period 1970-2010. Political parties have a range of unobservable characteristics that we should take into account, e.g. parties belong to different countries with different constitutions and historical characteristics. As a result, a cross sectional analysis, as this of Adams et al. (2009), is subject to possible bias of the results. We tackle this problem by using party and year fixed effects to control for the influence of fixed unobservable party factors (Ward et al, 2011). Moreover we control for the possible influence of parties in other countries by including the average position of parties abroad. Finally we add in a set of control variables related to economic, demographic and political factors.

Regarding the dependent variable, party's overall position, comes from the Comparative Manifesto Project (CMP) database while as main independent variable we use the three KOF globalization indices (economic, social and political), separately in each regression, to estimate the multifaceted phenomenon of globalization (Dreher, 2006). The main findings suggest that parties' position is mainly affected by economic and social globalization, and indicate a party convergence in the face of globalization, with right-wing parties moving leftward.

While the above analysis has tackled the issue of time-invariant characteristics, it does not take into account the influence of time-varying omitted variables. We confront this critical issue by using an instrumental variable (IV) approach which mitigates such concerns for potential endogeneity. The analysis is based on the established results that countries with higher levels of human capital tend to be more globalized (Hickman and Olney, 2011). Therefore, human capital index is used as instrument for globalization, which has zero correlation with parties' position and high correlation with globalization.

The rest of the paper is structured as follows. Section 2 reviews the related literature and elaborates the testable hypotheses. Section 3 describes the data and introduces the empirical model. Section 4 presents the main empirical results while Section 5 includes the robustness check of our estimations. Finally, Section 6 summarizes the main points.

2 Theoretical Framework and Hypotheses

In this section we try to shape theoretical hypotheses about a party's overall position and globalization, which are based on existing evidence. The link between political parties and globalization has been examined by both economists and political scientists, but the relationship is ambiguous. For the sake of simplicity, we separate the section in two parts. In the first part we formulate the existing findings on the relationship between globalization and parties' policies and elaborate the first hypothesis. In the second part we introduce the case of partisanship and the second hypothesis is derived.

2.1 Globalization and parties' policies

There is an extensive literature on the impact of economic globalization on welfare and economic policies (Cameron, 1978; Rodrik, 1997, 1998; Dreher et al., 2008b; Leibrecht et al., 2011). Also, fewer studies have examined the impact of social globalization on social spending and labor policies (Dreher and Gaston, 2007; Meinhard and Potrafke, 2012). Nevertheless, the estimated results are ambiguous and leave an opening for doubt about the precise response of parties to globalization.

According to the findings of the literature, economic globalization seems to have various and many times opposite effects on parties' policies (Adam and Kammas, 2007; Dreher et al. 2008b). This fact is easily understood if someone considers that parties' platforms consist of

diverse policies which likely apply to different directions (left-right). In other words, parties could respond to globalization by moving their position leftward in some policies and rightward in others; and this is one of the main reasons we use a party's overall position. Another reason is that parties give particular attention on their overall position, since voters care about multiple issues as globalization increases and support a party for its overall position and not a specific one. Finally, it should be noted that while most of the studies mentioned above referred to governmental action are directly connected to our analysis – which includes parties either participating in government or not – because governments are nothing else than political parties coming to power through their electoral programs.

Besides economic globalization, social globalization has been found to have a significant effect on parties' policies, as it represents human mobility and the exchange of information and cultural characteristics among countries. Meinhard and Potrafke (2012) have shown that social globalization has a positive influence on government spending, on the grounds that the more people are globally interconnected, the more they observe the government size in other countries and demand more expenditures in their country. Furthermore, social globalization has an effect on working class in the sense that informs unions' members about the limited bargaining power due to externalities (Dreher and Gaston, 2007).

Given that both economic and social globalization affect party policies and that the mean value of each one is high in our sample (see Table A.2 in Appendix), we construct the first hypothesis, labeled as *Parties' position is affected by both economic and social globalization (H1)*. In other words, we expect economic and social globalization to have a significant effect on parties' overall position which includes positions on topics related to economy and the organization of society. We do not expect the same about political globalization, since it is less perceptible by the people and many studies have found no significant effect of on parties' policies.

2.2 The matter of partisanship on globalization effect

The examination of party responsiveness to globalization requires paying particular attention to party's identity.² Political parties are not only office-seekers but they are also policy-seekers, having their ideology and fundamental principles (Boix, 1998). A rich literature addresses the importance of partisan differences in response to globalization, taking into account the fact that

² The term *party's identity* refers to the ideological group of a party, e.g. communist, social democratic, Christian democratic, conservative etc.

left-wing parties are inherently distant in their ideology from right-wing parties, having different social groups of representation (e.g. Hibbs, 1987; Bonoli and Powel, 2004).

However, some studies have found that as the economic globalization increases, the parties converge to their economic policies due to the constraints of globalization which reduce the available policies (Dorussen and Nanou, 2013; Ward et al., 2015). We adopt this view also for parties' overall position and assume that globalization leads to party convergence, but not on rightist positions. That is because globalization makes the positions of mainstream left-wing parties more attractive to society. As economic globalization increases, people demand state intervention for protection against the external risk (Burgoon, 2012, for a review), while as social globalization increases, the interaction among people from different countries, makes society more sensitive to social and redistribution issues. Therefore right-wing parties respond to globalization by moderating their position, adopting positions closer to their rivals. Based on this rationale a second hypothesis is produced, labeled as *Globalization leads to party convergence (H2)*.

In order to test the two hypotheses we conduct an empirical analysis whose findings contribute to the literature, giving remarkable explanations for the emerging results. Last but not least, contrary to the existing studies which use parties' overall position, we extend our data to the first decade of 2000 where economic and social globalization has seen greatly accelerate.³

3 Data and Empirical Specification

3.1 Measuring party position

We construct an annual panel dataset, where the cases comprise parties/year for 34 political parties of 17 West European countries over the period 1970-2010. We include two types of parties of each country, a left-wing and a right-wing party, which satisfy two main constraints. First, parties should be mainstream parties because they are more credible in their electoral programs than niche parties (e.g. Green, Communist).⁴ Electoral programs of mainstream parties consist of feasible positions as they are more likely to enter into government, and hence

³ The first decade of 2000s has been noted as very important by Adams et al. (2009).

⁴ Adams et al. (2006) have shown that mainstream parties respond to the environment more than "niche" parties because the latter have strict policy beliefs.

to be punished by the electorate for unfeasible policies (Dorussen and Nanou, 2013). Second, parties should have long-standing representation in electoral competition by participating in at least four national elections from 1970 to 2010. We do this because parties with long participation in the elections have a bigger electoral cost than parties with short participation and they move their position more conscious and strategic.

Based on the literature and under the above constraints we include a social democratic as left-wing party and a Christian democratic as right-wing party. In the case that more than one party satisfies the above constraints we choose the one with the highest average vote share at all the elections; most of the times this party is also this with the longest participation in elections. In the case of Great Britain and France we use conservative parties instead of Christian democratic parties because we found no evidence for Christian democratic parties which participate more than once in elections. All the included parties and descriptive statistics of the variables employed are presented in Appendix.

In order to evaluate the main hypotheses we use a measure for party positioning on ideological scale (left-right) which is derived from the database of Comparative Manifesto Project (CMP) and has been used in numerous studies (e.g. Adams et al. 2009; Haupt 2010; Ward et al., 2011). This measure represents a party's overall position with registered references about a broad spectrum of issues according to parties' electoral programs,⁵ which are well-researched and attempt to shape election outcome by affecting the public (Green and Hobolt, 2008). After all, a party's overall position reflects the image and the differentiation of a party comparatively with another.

Thus, the dependent variable is a measure, labeled as *party's overall position*, which ranges from -100 (extreme left) to +100 (extreme right).⁶ It shows the point of a party's position in ideological scale, according to its official electoral program (manifesto) at every national election.⁷ It should be noted that CMP provides data about position of each party separately,

⁵ The registered references refer to issues related to economy, labor, society, welfare state, justice, democracy and external relationships.

⁶ This measure indicates the left-right position as given in Michael Laver and Ian Budge (1992) and is constructed by subtracting the sum of categories related with left positions from the sum of categories related with right positions. It includes quasi-sentences about welfare state, education, economy, market regulation, law and order, morality, internationalism, democracy, social groups and human rights.

⁷ Electoral programs are being written before every election and express party's position until the next elections when new programs are being written. The overall position of a party is announced at the year of election and we assume that party keeps this position until the next election based on Imbeau (2009) who supports that political parties follow policies consistent to their position on electoral programs. Moreover, Osterloh and Debus (2012) have mentioned that the positions included in parties' manifestos are strongly linked with the actual subsequent policies that are implemented during the period until the next elections.

even if the party belongs to a coalition. In general a positive coefficient of this measure indicates a move to the right which implies policies in favor of market deregulation, retrenchments in crisis and reduction of welfare state. Instead, a negative coefficient indicates a move to the left which means policies promoting market regulation, expansion of welfare state, favorable actions to labor groups and state intervention into the economy.

3.2 Measuring globalization

Our main independent variables consist of the KOF globalization indices developed by Dreher (2006). We use the separate indices for economic, social and political globalization and an overall index which combines these three dimensions of globalization (Dreher, 2006; updated in Dreher et al., 2008a). As Ward et al. (2011) have noticed many studies use various indicators for economic globalization as independent variables in the same regression with high correlation between them. The use of Dreher's indices not only helps us to avoid the above problem, but also gives us the opportunity to control for social and political globalization besides economic.

There are three sub-indices of globalization; *economic globalization* takes into account only trade, investment flows and restrictions on these flows. On the other hand *social globalization* is elaborated on the basis of data on communication among people from different countries (e.g. telecom traffic, degree on tourism and stock of foreign people on total population), information flows (e.g. internet users, international newspaper traded) and cultural proximity (e.g. trade books). Finally, *political globalization* accounts whether the country is connected with other countries by measuring the number of embassies in a country, the membership in international organizations, missions and treaties.⁸ As the KOF indices are highly correlated, each is used in separate regressions. However, an index comprising all three above sub-indices is also used (denoted as *Total globalization*). All the globalization indices range from 1 (minimum value of globalization) to 100 (maximum value of globalization).

3.3 Other independent variables

Since there is no accepted theoretical model for our empirical estimations, we include a set of control variables in order to correctly specify our baseline model. Following the literature (see e.g. Dreher et al., 2008b; Meinhard and Potrafke, 2012) we use control variables related to economic, demographic and political factors.

⁸ For more information see Dreher (2006).

First, we use the growth rate of GDP per capita (*growth*) which is expected to have either a positive or negative sign. On the one hand, low growth rates may lead parties to more left positions to confront recession, but on the other hand left positions with increasing expenditure are more likely at times of economic prosperity (Dreher 2006). The second control is the inflation rate (*inflation*) as measured by the GDP deflator. According to studies on Partisan Cycles (e.g. Alesina and Rosenthal, 1989; Herwartz and Theilen, 2014) higher rates of inflation affect mainly right-wing parties by moving them rightward in order to control inflation, and leave left-wing parties uninfluenced. For this reason, we also include the interaction term between inflation and left-wing parties (*leftxinflation*).

To take into account the level of development in each country, a country's relative income (*relative_income*) is included in the set of regressors. This variable is measured as the proportion of a country's GDP per capita in relation to the average sample GDP per capita. We also include a demographic variable, the age dependency ratio (*dependency*), which is measured by the number of persons in the age group 0-15 and 65+, as a ratio of the working age population. A higher rate of inactive population leads parties towards left with more social spending and measures favorable for vulnerable groups (Leibrecht et al., 2011). All the above controls are taken from the World Bank's Development Indicator Database.

The last control variable is related to political factors and mostly used in political studies. This variable is the effective number of parties (*Eff_no_par*) which weights the number of parties in the legislature by their vote share and is taken from the Armingeon et al. (2015) published dataset. The inclusion of this variable in the model captures the effect of changes in the institutional system in the same country across time (Dorussen and Nanou, 2013).⁹ However, we do not have an a priori expectation on the sign of this variable.

Last but not least, we include a variable, labeled as *party_position_abroad*, in order to control if the position of a party in a particular country depends on the average positions of similar parties in other countries.¹⁰ In simple terms, we estimate if the position of the left-wing (right-wing) party in a particular country, e.g. Spain, is affected by the average positions of left-wing (right-wing) parties in all other countries of the sample. Specifically, *party_position_abroad* is the average of the positions that similar parties in other countries take and is expressed by the equation below:

⁹ The corresponding effect across countries is captured by the fixed effects estimator.

¹⁰ With the term *similar parties* we mean parties which belong in the same party group, i.e. the group of left-wing parties or the group of right-wing parties.

$$\bar{A}_{jit} = \frac{\sum_{c \neq j, k \neq i} position_{ckt|ideology_j}}{n} \quad (1)$$

where the numerator shows the sum of the positions of parties, in all other countries except i , which belong in the same ideological group with party j . The denominator, n , represents the number of corresponding parties in other countries of the sample and is equal to sixteen (16).¹¹ We have also calculated the weighted average of parties' positions in other countries using as weight the inverse of the distance of GDP per capita between country i and k and the results remain the same.¹² However, the baseline specification includes the variable *party_position_abroad* (\bar{A}_{jit}) as described in equation (1) because European parties tend to be affected by the common trend of parties in the rest of Europe, regardless of the level of GDP per capita and even more the geographical distance among countries. Finally, we use the lag value of \bar{A}_{jit} as it takes time for a party to respond to positions of parties in other countries. Thus, the baseline model is formulated as follows:

$$Position_{jit} = b_0 + b_1 Globalization_{it} + b_2 leftxGlobalization_{it} + b_3 \bar{A}_{jit-1} + b_4 X_{it} + \gamma_j + \delta_t + \varepsilon_{jit} \quad (2)$$

Where $Position_{jit}$ represents the overall position of party j in country i at time t .¹³ The position of each party is measured at every election year and remains the same until the next elections where takes a new value. $Globalization_{it}$ denotes the globalization rate in country i , where party j belongs, at time t and takes the value of only one index of globalization (economic, social, political or total) in each regression in order to avoid problems with multicollinearity. The term $leftxGlobalization_{it}$ is the interaction term between globalization and the dummy for left-wing parties, which takes the value 0 for right-wing parties and value 1 for left-wing parties. Finally, \bar{A}_{jit-1} is the average of parties' positions in other countries at time $t-1$ and X_{it} includes the additional control variables of country i where party j belongs at time t .

¹¹ The sample includes 34 parties, 17 left-wing and 17 right-wing parties, so the number of left-wing or right-wing parties in other countries except country i is equal to sixteen ($n = 16$).

¹² The estimated results with the weighted average are available upon request.

¹³ The dependent variable $Position_{jit}$ takes values every year despite the fact that elections are not annual. Parties keep the same position in their electoral program until the next elections.

To decide between the use of fixed effects or random effects we apply the standard Hausman test which showed that the appropriate specification is the fixed effects model. We also test if the use of time dummies is appropriate by applying an F test in our baseline specification and we found that time dummies are needed in our model. Therefore, the model includes party fixed effects γ_j in order to eliminate bias due to the effect of unmeasured variables that are strictly exogenous, time effects δ_t which are found to be significant and ε_{jit} is the error term. Lastly, it should be noted that the dummy variable *left* is not included as a single independent variable because it is already included in party fixed effects γ_j .

4 Empirical Results

In this section we present the main results of the empirical model, as well as a variety of robustness tests in order to verify the validity of them. Our aim is to identify the aspects of globalization that affect political parties and find out the precise effect of them on parties' positions, controlling for partisan differences. All the regressions are estimated with time and party fixed effects and the standard errors are estimated as Robust Clustered Standard Errors in order to control for both heteroskedasticity and correlation of the error terms (Beck and Katz, 1995).

4.1. Baseline results

4.1.1 Testing Hypothesis 1 (H1)

The main results are reported in Table 1, where the baseline equation (2) is estimated four times using a different index of globalization in each regression (total, economic, social and political). Columns (2), (4), (6), (8) include all the covariates introduced above, while columns (1), (3), (5), (7) estimate the same results including only the main independent variable with the interaction term for left-wing parties. As can be seen, the results remain the same in any column.

[Table 1, here]

In the first two columns we estimate the baseline model using the index of total globalization which combines all the three dimensions of globalization (economic, social and political). The coefficient of *Total_globalization* is statistically significant at the 1% level and the negative sign indicates that an increase of total globalization moves right-wing parties to

more left positions. On the other hand the coefficient of interaction term *Total_global.xleft* (1.465) has a positive sign and is of similar magnitude as the coefficient of *Total_globalization* (-1.315). Given that the effect of total globalization on leftist parties is the sum of the coefficients of *Total_globalization* and *Total_global.xleft*, which seems to be small ($-1.315 + 1.465 = 0.15$), total globalization has no effect on positions of left-wing parties. Moreover, we perform an F-test that fails to reject the null hypothesis, indicating that left-wing parties remain unresponsive to total globalization. Therefore, in substantive terms, a one standard deviation increase in total globalization is associated with an approximately one standard deviation leftward movement for right-wing parties and with no movement for left-wing parties.

The regressions in the next columns suggest that the effect of total globalization is mainly driven by economic and social globalization since these two indices of globalization appear statistically significant coefficients at the 1% level in all the regressions (columns 3-6). On the other hand, political globalization has less effect on a party's overall position as the coefficient turns out to be statistically significant only in column (8) at the 10% level. These results give support to the first hypothesis (*H1*) under which party's position is affected not only by economic globalization but also by social globalization. More precisely, these outcomes indicate that both economic and social globalization belong to the critical factors that affect parties' electoral programs while political globalization seems to have less influence. Consequently, globalization does not only have influence for policy but also for politics.

There are two possible explanations for the above results. The first obvious explanation is that a shift in economic globalization implies a shift in the economic stability of a country while a shift in social globalization alters the coherence of society; therefore parties respond to them in order to control and keep balance in the economy and society. The second explanation is that political parties seek electoral support, and hence, they are influenced by factors that influence voters' preferences, such as economic and social globalization. According to Rodrik (1998), economic globalization is directly linked to income stability, which is an important criterion for people's vote, and affects voters' preferences. On the other hand, social globalization provides external information to voters, affecting their attitude towards some economic, social or labor issues (Meinhard and Potrafke, 2012). It can be considered such an alternative of the Meltzer-Richard problem in which parties follow voters' preferences which are formulated according to the level of economic and social globalization in their country. Therefore, parties decide to alter or not their position in order to be closer to the preferences of society and keep economic and social stability.

4.1.2 Testing Hypothesis 2 (H2)

In order to determine the direction that parties move towards, we should focus on the sign of coefficients. The coefficients of both economic and social globalization have the same sign and statistical significance with those of total globalization; consequently the estimated results for right-wing parties remain the same as above. As far as left-wing parties are concerned, they appear not to alter their position in response to economic globalization¹⁴ but they move rightward in response to social globalization since the sum of the coefficients of *Social_globalization* and *Social_global.xleft* is equal to 0.402 and statistically significant at the 5% level.¹⁵ So, right-wing parties present a leftward movement whereas left-wing parties remain irremovable in the face of economic globalization and make a relatively smaller rightward movement in response to social globalization. The finding that left-wing parties are less responsive to economic globalization is consistent with previous studies of Adams et al. (2009) and Haupt (2010).

Concerning the substantive magnitude of these effects, a one standard deviation increase in economic or social globalization leads right-wing parties to move their position 14-point or 11-point, respectively, towards left.¹⁶ On the other hand, left-wing parties do not show any movement in an increase of economic globalization but they move their position 6-point towards right in a one standard deviation increase of social globalization. Although the two types of parties move to opposite directions in the face of social globalization, the leftward movement of right-wing parties is greater than the rightward movement of left-wing parties, indicating that right-wing parties come closer to the position of left-wing parties. Given that left-wing parties remain in the same position or move rightward, while right-wing parties move leftward, a convergence between political parties emerges in response to globalization (either economic or social), but not to the right. So, the estimated results give support to the second hypothesis (H2), as well.

Even though both economic and social globalization lead parties to converge in their positions, the explanation of each effect is different. Economic globalization imposes constraints on the potential positions of parties on the grounds that it is perceived as threat by a

¹⁴ Since the sum of the coefficients of *Econ_globalization* and *Econ_global.xleft* is equal to zero ($-0.989+0.989=0$), economic globalization has zero effect on left-wing party's position.

¹⁵ The statistical significance of the coefficient results from the implementation of an F-test which rejects the null hypothesis of insignificant coefficient at the 5% level.

¹⁶ We refer the standardized coefficients because of allowing assessment of the relative size of the associations of independent variable with the dependent variable. The standard deviation of economic globalization is equal to 14.22, while the standard deviation of social globalization is equal to 14.35.

big part of society which wants to be secured (Rodrik, 1998). In simple terms, economic globalization makes the position of mainstream left-wing parties more attractive to voters who demand more state intervention and generally more left, but not extreme left, measures. Therefore, mainstream left-wing parties, such as social democrats, have no incentive to move rightward and at the same time they cannot move leftward due to the fear of capital flight abroad causing weakness of financing public expenditures. On the other hand, right-wing parties possess positions in favor of middle and up class and they cannot move further to the right in response to economic globalization because they risk losing support from a part of middle class. Instead they need to move leftward in order to make their position more attractive to those of middle class that feel vulnerable against economic globalization.

The effect of social globalization, however, is attributed to a different explication. While economic globalization creates insecurities, social globalization informs voters for possible externalities and facilitates the transmission of ideas, making the society more open to other cultures and foreign population. Therefore right-wing parties relax their overall position to seem more sensitive to social issues. However, the same does not apply to left-wing parties, as they take more right positions in an increase of social globalization. That is because social globalization informs workers about the negative externalities making them to recognize their limited bargaining power and hence union membership is reduced (Dreher and Gaston, 2007). Since union members are more linked with left-wing parties, the latter move their position to the right because their target group of voters is reduced. It should be mentioned that a part of society perceives social globalization as a threat for the nation and demand positions further to the right, but this group of people appeals to extreme right-wing parties which are niche parties and are excluded of our analysis.

Furthermore, the estimated results in Table 1 indicate the existence of interaction between political parties from different countries, as the coefficient of the average parties' positions abroad (*Party_position_abroad*) bears a negative and statistical significant coefficient at the 1% level in all the regressions. In simple terms, this suggests that a left-wing (right-wing) party in a particular country is affected by the average position of left-wing (right-wing) parties in other European countries at the previous year. The negative sign, however, indicates that parties move their position in an opposite direction from this that the corresponding parties in other countries took at the previous year. This finding is contrary to expectations that European parties of the same ideological group obtain common positions, but is not irrational. Parties might try to separate themselves from the average in Europe, especially when the positions of

corresponding parties in other countries are disapproved by society. This effect also might occur because our analysis does not include only governing parties, therefore parties do not always have incentive to emulate parties in other countries.

As far as the rest variables are concerned, the inflation rate seems to have a positive and statistically significant coefficient at the 1% level for right-wing parties, giving support to our expectations. This result implies that higher inflation leads right-wing parties to further right positions in order to control inflation and avoid harmful distributive consequences for their target groups. In contrast, the interaction term of inflation rate with left-wing parties is negatively signed but statistically significant at the 10% level only in two regressions in columns (4) and (8), indicating that inflation have greater effect on right-wing parties (Hibbs, 1987). The rest of the controls seem to have no effect on parties' position as they have insignificant coefficients in all regressions.

4.2 Sensitivity analysis

In this sub-section we carry out an additional analysis in order to evaluate the robustness of our main findings for economic, social and total globalization. All the robustness tests explored with respect to the econometric approach applied. First we check if our results are influenced by cross-sectional dependence, i.e., the correlation among units (parties in our case). Second we estimate our results using some alternative control variables, as well as a Jackknife analysis. Finally we perform an instrumental variable approach in order to mitigate concerns for potential endogeneity or omitted variable bias.¹⁷

4.2.1 Testing for cross-sectional dependence

The first type of robustness test confirms that the existence of cross-sectional dependence does not cause problems in our estimates. In general, panel data sets are likely to appear cross-sectional dependence due to common shocks or unobservable factors that become part of error term or due to pair-wise dependence in the disturbances (DeHoyos and Sarafidis, 2006). By performing the Pesaran's (2004) CD test we find it necessary to re-estimate the baseline model, correcting for cross-sectional dependence and ensuring that the main findings remain the same.

Therefore, we re-estimate the main specification using Driscoll and Kraay estimator, which is robust to general forms of cross-sectional and temporal dependence, as well as with

¹⁷ The baseline model and robustness tests have also been estimated with the inclusion of a lagged dependent variable and produce the same results; estimations are available upon request.

Panel Correct Standard Errors (PCSE), which is a parametric method to correct contemporaneous cross-sectional dependence (Hoechle, 2007)¹⁸. The estimated results are presented in Table 2, where the first three columns represent the Driscoll-Kraay estimates while the last three columns represent the PCSE estimates. Although the regressions include all the control variables, we present only these that are of interest. As we can see the empirical findings remain qualitatively identical to those depicted in Table 1, as all the variables appear similar coefficients and statistical significance.

4.2.2 Alternative Controls and Jackknife estimations

The next robustness check is the use of some alternative control variables such as unemployment rate and GDP per capita. Table 3 displays these results, where columns (1)-(3) show the baseline regression with the log of GDP per capita instead of both growth rate and relative income, while columns (4)-(6) show the same regression with unemployment rate instead of inflation rate. We also include an interaction term between unemployment and left-wing parties, as we do for inflation rate, because left-wing parties might respond to unemployment differently from right-wing parties (Hibbs, 1987). Note that we do not include unemployment and inflation rate in the same regression because they are correlated to each other according to Phillips Curve, as well as growth rate is related to unemployment rate via Okun's law. In each of the eight columns of Table 3 the results remain unaltered.

In Table 4 we replicate the fixed effects estimates of Table 1 and perform a Jackknife type analysis, by excluding one party at time. More precisely, columns (1) and (3) display the min and max value (respectively) of the coefficients of the main independent variables according to Jackknife estimates. Columns (2) and (4) show the political party that has the corresponding min and max value, while column (5) presents the estimated coefficient of our baseline model (see Table 1). Through this approach we verify that the estimated coefficients of total, economic and social globalization in Table 1 belong in the interval between their max and min value.

4.2.3 Instrumental Variable (IV) Strategy

Most of the studies that examine the responsiveness of party's position do not perform an instrumental variable (IV) analysis supposing that the reverse causality issue cannot exist since they do not use implemented policies as regressors. Nevertheless, we consider important to deal

¹⁸ Both methods are also robust to heteroscedasticity and autocorrelation.

with issue of omitted variable bias as well as reverse causality, i.e. the fact that globalization is affected by parties' positions. We do this through a 2SLS identification strategy, instrumenting for all types of globalization that are found to have a strong effect on parties' positions (i.e. total, economic and social globalization) and their interaction terms.

The challenge in our case is to find a valid instrument which is adequately correlated with all the globalization indices and remain uncorrelated with parties' positions and the disturbances. It is a challenge because KOF indices of globalization are components of a variety of variables, so we should find an instrument that affects globalization but is not included in any of the indices of globalization. Given all the above, we use as an instrument the human capital index which is highly correlated with each of the three indices of globalization (total, economic and social) with a correlation coefficient equal to 0.7 and zero correlated with parties' positions.¹⁹

The motivation of choosing this instrument rests on studies that have found a positive relationship between globalization and human capital (e.g. Hickman and Olney, 2011). Countries with higher human capital tend to be more globalized either economically (e.g. have more imports, exports) or socially (e.g. have more foreign people and multiculturalism). Lastly, we use the lagged value of the instrumented variable as an additional instrument.

Table 5 presents the IV fixed effects regression with robust standard errors and year dummies. Panel A represents the 2SLS estimates instrumenting globalization (total, economic and social) with human capital index (*HCI*) and one lag of globalization (*Globalization_t-1*), as well as instrumenting the interaction term of globalization with the interaction term of human capital with dummy left (*HCIxleft*) and the interaction term of one lag of globalization with dummy left (*Globalization_t-1xleft*). Although we include all the control variables of the baseline specification in IV model, we present only the independent variables of interest. Panel B represents the first stage estimates where instruments are regressed on instrumental variables. Every 2SLS estimate has two regressions on the first stage as we instrument both *globalization* and *globalizationxleft*, which reflect to columns (1a)-(6a) and (1b)-(6b), respectively. *Globalization_t-1* and *Globalization_t-1xleft* correspond to the type of globalization (total, economic or social) indicated in each column. As we can see, the excluded instruments *F* statistic exceeds 10 at every regression, indicating that the instruments are sufficiently strong (Staiger and Stock, 1997).

¹⁹ Human capital index (HCI) is based on years of schooling and comes from Penn World Table (8.0).

Our theoretical priors are confirmed as the human capital index in most regressions in the first stage has a positive and statistically significant coefficient, denoting that has a positive impact on globalization. In the second stage (Panel A) the coefficients of total, economic and social globalization, as well as their interaction terms with dummy left remain the same, in terms of both statistical significant and sign, as in our prior estimates. In addition, the coefficient of *Party_position_abroad* still has the same sign and statistical significant with this in Table 1 in all the regressions.

Regarding the validity of our instruments we should note that in all regressions the Cragg-Donald F-statistic (*Cragg-Donald_F_stat.*) is above the critical values produced by Stock-Yogo, which implies the rejection of null hypothesis of weak identified model. In addition, the statistical significance of Kleibergen-Paap statistic (*K-P_rk_Lm_stat*) at the 1% level implies the rejection of underidentification assumption; therefore the model is not underidentified. Finally, the whole results indicate that the main findings in Table 1 are strong and valid under many specifications and robustness tests.

5 Conclusions

This paper has analyzed the effect of the dimensions of globalization – economic, social and political – on parties' overall position in European countries between 1970 and 2010. Given that political parties have different ideological basis and target groups of voters our analysis controls for differences in responsiveness to globalization among parties. Three main findings derive from the empirical analysis. First, both economic and social globalization have a significant effect on party's position, while political globalization seems to have a less strong effect. Second, parties found to respond differently to economic and social globalization depending on their ideological identity. Specifically, right-wing parties adopt more left positions in an increase of economic or social globalization, whereas left-wing parties do not alter their position in an increase of economic globalization and move rightward in response to social globalization. Obviously, these findings strongly suggest a convergence of political parties, but not to the right.

Moreover we found support for a third argument that benefits us to better understand the role of competition for parties. This suggests that political parties respond to the positions of parties of the same ideological group in other countries but they do not emulate them. Given

that the empirical analysis includes both governing and no governing parties, this is not an unexpected result.

The analysis in total seems to be in contrast with the view held in the literature that globalization leads parties to more right positions (Rodrik, 1997; Garrett, 2001) and those that find evidence about a convergence to the right (Ward et al., 2011) or no convergence (Haupt, 2010). However, the estimated results stand in line with existing evidence documented in papers which examine parties' positions on economic policies (Dorussen and Nanou, 2013). Moreover, they are partly consistent with the analysis of Adams et al. (2009), although our analysis relies on a more extended time period and is based on different econometric approach. Lastly, in contrast with the studies mentioned above, our analysis controls for the effect of parties' positions in other countries and concludes that parties are affected by domestic factors such as economic and social globalization as well as by the positions of parties in the rest Europe.

These results taken all together suggest that parties choose their position influenced by both economic and social globalization, as well as, that differences occur in responsiveness of left-wing and right-wing parties that cause party convergence but not towards right. Moreover, the results point out that parties at home are influenced by the average position of parties abroad. Finally, globalization (economic and social) and the positions of parties abroad are factors that influence the strategic choice of a party's position and hence they have implications for party competition.

APPENDIX

Table A.1 Parties included in the empirical analysis

Country	Left-wing Party	Right-wing Party
Austria	Social Democratic Party	People's Party
Belgium	Francophone Socialist Party	Christian People's Party
Denmark	Social Democratic Party	Christian People's Party
Finland	Social Democrats	Christian Union
France	Socialist Party	Union for French Democracy
Germany	Social Democratic Party	Christian Democrats
Great Britain	Labour Party	Conservative Party
Greece	Panhellenic Socialist Movement	New Democracy
Ireland	Labour Party	Fine Gael
Italy	Socialist Party	Christian Democrats
Luxembourg	Socialist Workers' Party	Christian Social People's Party
Netherlands	Labour Party	Christian Democratic Appeal
Norway	Labour Party	Christian People's Party
Portugal	Socialist Party	Centre Social Democrats
Spain	Socialist Workers' Party	Centre Democrats
Sweden	Social Democratic Labour Party	Christian Democratic Community
Switzerland	Social Democratic Party	Christian Democrats

Source: Comparative Manifesto Project

Table A.2 Descriptive Statistics

Variable	Mean	St. Dev.	Min	Max	Source
Party's position (all parties included)	-7.19	19.81	-58.11	78.85	CMP
Social democratic parties' position	-18.62	14.97	-58.11	43.24	CMP
Christian democratic parties' position	5.67	16.43	-26.12	78.85	CMP
Total globalization	75.27	11.19	49.02	92.72	Dreher et al. (2006)
Economic globalization	73.45	14.22	42.85	98.88	Dreher et al. (2006)
Social globalization	69.98	14.35	36.73	91.25	Dreher et al. (2006)
Political globalization	85.30	12.92	45.9	98.43	Dreher et al. (2006)
Growth	2.18	2.63	-8.71	13.62	World Bank
Relative income	1	0.44	0.25	2.82	Constructed
Dependency ratio	0.52	0.05	0.43	0.73	World Bank
Inflation rate	5.85	5.46	-5.2	27.21	World Bank
Effective parties	4.55	1.6	2.27	10.29	Armingeon et al. (2015)
GDP per capita	30548	13435	7487	86127	World Bank
Unemployment rate	6.1	3.74	0	20.06	OECD Economic Outlook (2013)

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Table 1 Parties in response to globalization: Basic findings

	<i>D.V: Party's Overall Position</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total_globalization	-0.876** (-2.463)	-1.315*** (-4.154)						
Total_global.xleft	0.564** (2.213)	1.465*** (6.412)						
Econ._globalization			-0.703** (-2.205)	-0.989*** (-3.761)				
Econ_global.xleft			0.510** (2.117)	0.989*** (5.258)				
Social_globalization					-0.390** (-2.172)	-0.744*** (-4.397)		
Social_global.xleft					0.452** (2.381)	1.146*** (6.051)		
Political_global.							-0.199 (-0.975)	-0.266* (-1.809)
Political_global.xleft							0.169 (0.740)	0.300 (1.635)
Party_position_abroad		-2.377*** (-6.899)		-1.990*** (-5.614)		-2.314*** (-7.367)		-1.525*** (-4.492)
Growth		0.101 (0.377)		0.105 (0.426)		0.147 (0.518)		0.151 (0.591)
Relative_Income		-5.546 (-1.106)		-7.160 (-1.115)		-1.120 (-0.353)		-2.247 (-0.445)
Inflation		0.697*** (3.749)		0.958*** (3.394)		0.645** (2.674)		1.370*** (3.647)
Inflation.xleft		-0.583 (-1.415)		-0.959** (-2.161)		-0.426 (-0.924)		-1.645** (-3.275)
Dependency		-0.179 (-0.010)		2.631 (0.126)		6.204 (0.292)		-2.912 (-0.101)
Eff._no._parties		0.669 (0.629)		0.641 (0.593)		0.939 (0.929)		0.754 (0.671)
<i>N</i>	34	34	34	34	34	34	34	34
Observations	1218	1177	1218	1177	1218	1177	1218	1177
<i>R-squared</i>	0.13	0.27	0.14	0.25	0.13	0.26	0.10	0.19

Notes: All regressions include two-way fixed effects and are estimated with robust clustered standard errors. *t* - statistics in parentheses. *, **, *** denote statistical significance at 10%, 5%, 1%.

Table 2 Correcting cross-sectional dependence

	<i>D.V: Party's Overall Position</i>					
	Driscoll-Kraay estimates			Panel Correct Standard Errors (PCSE)		
	(1)	(2)	(3)	(4)	(5)	(6)
Total_globalization	-1.375*** (-4.637)			-0.682*** (-3.294)		
Total_global. x left	1.465*** (5.728)			0.869*** (4.771)		
Econ_globalization		-0.989*** (-4.473)			-0.842*** (-4.835)	
Econ_global.xleft		0.989*** (4.657)			0.750*** (4.281)	
Social_globalization			-0.744*** (-5.653)			-0.327*** (-2.851)
Social_global.xleft			1.146*** (8.106)			0.613*** (4.808)
Party_position_abroad	-2.377*** (-9.368)	-1.990*** (-7.587)	- 2.314*** (-11.594)	-0.882*** (-5.149)	-0.715*** (-4.342)	-0.827*** (-4.907)
<i>N</i>	34	34	34	34	34	34
Observations	1177	1177	1177	1177	1177	1177
<i>R-squared</i>	0.27	0.25	0.26	0.40	0.38	0.40

Notes: The regressions in the first three columns are estimated with Driscoll and Kraay standard errors, include two-way fixed effects and are based on four lags; nevertheless the results are robust to decrease the lag structure to three, two or one lags. The regressions in the last three columns are estimated with panel correct standard errors (PCSE) and include year and party dummies.

t - statistics in parentheses. *, **, *** denote statistical significance at 10%, 5%, 1%.

Table 3 Alternative independent variables

	<i>D.V: Party's Overall Position</i>					
	Inflation and GDP per capita			Unemployment and GDP per capita		
	(1)	(2)	(3)	(4)	(5)	(6)
Total_globalization	-1.373*** (-4.463)			-1.508*** (-4.407)		
Total_global.xleft	1.465*** (6.488)			1.539*** (6.297)		
Econ_globalization		-0.966*** (-4.099)			-1.086*** (-3.730)	
Econ_global.xleft		0.987*** (5.522)			1.017*** (5.325)	
Social_globalization			-0.751*** (-4.503)			-0.784*** (-3.969)
Social_global.xleft			1.141*** (6.143)			1.136*** (5.640)
Party_position_abroad	-2.375*** (-6.898)	-1.989*** (-5.626)	-2.309*** (-7.418)	-2.280*** (-5.887)	-1.798*** (-4.516)	-2.346*** (-6.515)
ln_GDPpercapita	-14.291 (-1.534)	-15.414 (-1.408)	-8.911 (-1.135)	-19.961 (-1.526)	-28.113* (-1.796)	-17.353 (-1.356)
Inflation	0.663*** (3.729)	0.915*** (3.230)	0.635** (2.667)			
Inflation.xleft	-0.584 (-1.446)	-0.963** (-2.196)	-0.423 (-0.921)			
Unemployment				-0.430 (-0.959)	-0.482 (-0.946)	-0.673 (-1.356)
Unemp.xleft				0.963 (1.356)	1.069 (1.390)	1.034 (1.361)
<i>N</i>	34	34	34	34	34	34
Observations	1177	1177	1177	1057	1057	1057
<i>R-squared</i>	0.27	0.25	0.26	0.26	0.24	0.26

Notes: All regressions include two-way fixed effects and are estimated with robust clustered standard errors. *t* - statistics in parentheses. *, **, *** denote statistical significance at 10%, 5%, 1%.

Table 4 Jackknife Estimation

<i>Regression with total globalization</i>					
	Min_coef.	Party	Max_coef.	Party	Estimated_coef.
	(1)	(2)	(3)	(4)	(5)
Total_globalization	-1.522***	right-wing (German)	-1.214***	right-wing (Finland)	-1.315***
Total_global.xleft	1.324***	right-wing (Finland)	1.591***	right-wing (German)	1.465***
Party_pos_abroad	-2.522	right-wing (Luxembourg)	-2.166***	left-wing (Finland)	-2.377***
<i>Regression with economic globalization</i>					
	Min_coef.	Party	Max_coef.	Party	Estimated_coef.
	(1)	(2)	(3)	(4)	(5)
Econ_globalization	-1.134***	right-wing (Austria)	-0.787***	right-wing (Finland)	-0.989***
Econ_global.x_left	0.812***	right-wing (Finland)	1.080***	right-wing (Austria)	0.989***
Party_pos_abroad	-2.192***	right-wing (Luxembourg)	-1.763***	left-wing (Finland)	-1.990**
<i>Regression with social globalization</i>					
	Min_coef.	Party	Max_coef.	Party	Estimated_coef.
	(1)	(2)	(3)	(4)	(5)
Social_globalization	-0.823***	right-wing (Belgium)	-0.661***	right-wing (Austria)	-0.774***
Social_global.xleft	1.068***	right-wing (Finland)	1.222***	left-wing (Belgium)	1.146***
Party_pos_abroad	-2.409***	right-wing (Italy)	-2.157***	left-wing (Finland)	-2.314***

Notes: Columns (1) and (3) present the min and max value (respectively) of coefficients of the independent variables according to Jackknife estimates. Columns (2) and (4) present the political party that has the corresponding value and Column (5) presents the estimated coefficients of our baseline model (see Table1) in order to verify that they belong in the interval between their min and max value. All regressions include two-way fixed effects and are estimated with robust clustered standard errors.

*, **, *** denote statistical significance at 10%, 5%, 1%

Table 5 Instrumental Variable Estimates

Panel A: 2SLS estimates fixed effects and robust standard errors						
	(1)	(2)	(3)	(4)	(5)	(6)
Total_globalization	-2.144*** (-3.217)			-1.598*** (-8.996)		
Total_global.xleft	1.894*** (4.103)			1.552*** (9.826)		
Econ_globalization		-1.842*** (-3.316)			-1.005*** (-7.786)	
Econ_global.xleft		1.642*** (8.608)			0.954*** (7.613)	
Social_globalization			-1.792*** (-2.600)			-0.849*** (-7.694)
Social_global.xleft			1.450*** (8.588)			1.180*** (10.237)
Party_position_abroad	-2.596** (-10.899)	-2.371*** (-10.079)	-2.646*** (-10.415)	-2.385*** (-10.771)	-1.977*** (-9.214)	-2.394*** (-10.806)
Observations	1137	1137	1137	1137	1137	1137
F-stat_excl_instr.[a]	37.85	28.60	11.50	3121.67	2941.9	220.24
F-stat_excl_instr.[b]	284.80	210.12	209.88	1577.23	3695.5	740.04
Cragg-Donald_F_stat.	27.30***	18.32***	7.81***	965.60***	2828.15***	685.61***
K-P_rk_Lm_statistic	72.62***	53.21***	21.16***	320.65***	376.14***	248.67***

Panel B: First-stage estimates

	(1a)	(2a)	(3a)	(4a)	(5a)	(6a)
	Total_glob.	Econ_glob.	Social_glob.	Total_glob.	Econ_glob.	Social_glob.
HCI	6.409*** (6.410)	7.539*** (5.211)	6.183*** (3.711)	0.412 (0.578)	0.702 (0.940)	0.603 (0.559)
HCIxleft	0.024 (0.022)	0.501 (0.306)	-0.432 (-0.247)	0.001 (0.001)	-0.230 (-0.267)	-0.294 (-0.228)
Globalization_t-1				0.883*** (32.413)	0.947*** (70.625)	0.841*** (23.028)
Globalization_t-1xleft				-0.004 (-0.125)	0.002 (0.141)	0.001 (0.011)
	(1b)	(2b)	(3b)	(4b)	(5b)	(6b)
	TotalxLeft	EconxLeft	SocialxLeft	TotalxLeft	EconxLeft	SocialxLeft
HCI	-9.433*** (-10.151)	-10.0791*** (-9.720)	-14.153*** (-10.395)	-0.168 (-0.582)	0.405 (1.342)	-1.007** (-2.003)
HCIxleft	24.333*** (23.864)	28.592*** (20.412)	31.207*** (20.484)	0.785 (1.072)	-0.036 (-0.058)	2.138** (2.461)
Globalization_t-1				-0.020* (-1.793)	-0.002 (-0.240)	-0.024** (-2.520)
Globalization_t-1xleft				0.916*** (41.325)	0.951*** (74.160)	0.885*** (29.095)

Notes: Panel A represents 2SLS estimates. *Cragg-Donald_F_stat.* is the Cragg-Donald weak identification test with the null hypothesis of weak identified model. *K-P_rk_Lm_stat* is the Kleibergen-Paap underidentification test with the null hypothesis of underidentified model. Panel B represents the first stage estimates and the excluded instruments *F* statistic. Every 2SLS estimate has two regressions on the first stage as we instrument both *globalization* and *globalizationxleft*, which reflect to columns (1a)-(6a) and (1b)-(6b), respectively. *Globalization_t-1* and *Globalization_t-1xleft* represent the type of globalization indicated in each column.

t - statistics in parentheses. *, **, *** denote statistical significance at 10%, 5%, 1%.