International Capital Flows, Political Parties and Elections*

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Abstract

The determinants of capital flows and the link between these flows and economic growth have been an intriguing subject in international economics and finance. The remarkable growth in capital flows in the last three decades has been attributed to different reasons - trade liberalizations, capital control policies, level of institutional and political development, and global versus country-specific risks. The lack of consensus on the underlying cause or causes arises as each study focuses on different type of flows with different time periods and different sample of countries. In this research, I focus on the determinants of foreign direct investment into six developed countries over a period of more than three decades. However, my interest here centers upon the role of political party characteristics as well as economic fundamentals in driving foreign direct investment, with specific reference to governing parties' positions on key economic and political issues. Using party manifestos and extreme bounds analysis, I find that 3-month government bond rates, stock market index and imports, as well as the governing party's position on administrative efficency, corruption, technology & infrastructure, and social services have a significant effect on foreign direct investment inflows. Intrigued by observation, I also look at the relation from other way around and test the effects of different capital flows on the probability of winning elections. I find that an increase in foreign direct investment and portfolio equity inflows during election years decreases the pro-business political parties' chances of winning the upcoming elections.

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1 Introduction

Surge of international capital flows into developed and developing markets after 1980s has drawn many researchers' interest. This strand of research has produced scores of papers, ranging from the growth effects of such flows to underlying reasons why capital is not flowing from capital-rich countries to poor ones as the neoclassical theory suggests (Lucas, 1990). On the latter, institutional quality and strong financial markets (Alfaro et al, 2005) have widely shown to be one of many reasons why capital prefers to move horizontally, but not vertically. What is not very common among these studies is the political aspect behind the capital flow behavior. By this, I do not mean the widely used political variables in the literature like democracy, rule of law, patent protection, transparency and so forth. My interest here centers upon the host country political actors' effect on foreign capital owners' decision, whether to invest in the concerned country or to direct the capital somewhere else. From this standpoint, I will explore the determinants of capital flows to developed economies through political as well as economical fundamentals.

Intuitively, depending on the governing political party's standing on key political and economic issues, we would expect foreign investors to adjust the amount of capital they invest in the host economy. In other words, one would expect capital inflows to be affected from election results - higher expectations of a pro-business party winning the election will increase the foreign direct investment inflows due to lower capital tax expectations. At the same time, pro-labor party will likely impose more tax on capital investment, decreasing the incentives of foreign investors. Other than different capital tax treatments, parties that are very distinct from each other on the political spectrum would also differ in their policies on market economy, international trade, welfare of the society and external relations with the rest of the world. My claim in this paper is that these defining characteristics of political parties have significant effect on the level of foreign direct investment developed countries receive before and after elections. I tested this relation with a panel data set, using data from six developed countries for the time period between 1970 and 2008. Macroeconomic

variables are obtained from *International Financial Statistics* and political party characteristics on several policy issues are obtained from the *Comparative Manifesto Project (CMP)*. I found that interest rates, imports and stock market index are significant fundamentals in determining foreign direct investment flows into the economy. Also, party characteristics towards to administrative efficency, corruption, technology & infrastructure, and social services are significant in explaining the capital flow behavior.

In the latter part of the paper, I look at the relation between capital flows and party characteristics from the other way around. Casual observation from elections around the world reveals the fact that in countries with high portfolio debt, incumbent party almost always loses the election. In other words, capital flows affect election outcomes as well as elections have significant impact on the levels of capital flows. I test the probability of winning an election with respect to the incoming portfolio equity and portfolio debt flows just before the elections. I find significant evidence that left leaning parties tend to win the elections as the country's portfolio debt increases before the elections.

The remainder of the paper is structured as follows: Section II describes the manifesto data and other economic fundamentals used in the estimation. Section III describes the methodology and the econometric techniques utilized. Section IV presents the estimation results with extreme bounds analysis. Section V asks the main question from other way around and Section VI concludes.

2 Data

The data used in this research is two-folded: Macroeconomic variables that explain the nature of capital flows through economic theory and political variables that explain the political standpoint of parties before each election. Both sets of data include annual observations on macroeconomic and political variables of six industrial countries from 1970 to 2008. These countries are *Canada, France, Germany, Japan, United Kingdom, and United*

States. Macroeconomic variables are obtained from *International Financial Statistics* published by International Monetary Fund. Political party characteristics are obtained from *Comparative Manifesto Project (CMP)* compiled by Manifesto Research Group from 1945 to 2003.

2.1 Fundamentals

Since we are interested in the determinants of capital flows in the host economy, we use only inflows of the capital into the subject countries, not the gross flows as some other researchers use in their analysis. Capital inflows correspond to net flows of foreign claims on domestic capital and reported under the balance of payment accounts in IMF statistics. The main categories for the capital inflows are foreign direct investment, portfolio equity and portfolio debt flows.

IMF defines the foreign direct investment as the direct investment made in the host country which gives the foreign capital owner at least 10 percent of ownership in the invested business or company. This direct investment could be in the form of equity investment, reinvestment of earnings - the investor's share in the undistributed earnings of the affiliate - and various inter-company transactions such as trade credit, as well as investments by affiliates. Portfolio inflows are divided into portfolio equity inflows and portfolio debt inflows. Portfolio equity inflows correspond to equity liabilities which includes shares, stock participations, and similar documents that denote ownership of equity but do not have the control of the firm as in foreign direct investment. Portfolio debt inflows are the liabilities that include transactions with non-residents in financial securities of any maturity (corporate securities, bonds, debentures, notes, money market negotiable debt instruments, etc.). Alternatively, the flows can be grouped as either private flows (commercial bank lending, bond financing from private creditors, private equity flows and suppliers' credit) or official flows (lending from official bodies, such as bilateral, governmental, and multilateral sources). However, we did not use this classification in this research as we believe that the type of capital is the one

that responds to changes in political characteristics of the incumbent party, not the source of the capital.

In all of the countries with the exception of Japan, data on ***capital flows*** goes as far as back to 1970. Hence, we start our analysis with that year. All capital flows are expressed in 2000 US dollars. The ***stock market index*** is for the blue chip stocks and indexed at 100 in year 2000. In order to have a comparable ***exchange rate*** among the countries in the dataset including the United States, I used national currency per SDR as the common currency unit. ***Interest rates*** used are yearly average of weighted yield on 13-week treasury bills. ***Exports and imports*** are obtained from national income accounts and deflated in 2000 prices. ***Market openness*** reflects the share of trade with respect to the national output. The size of the economy has been shown to be a good representation on the magnitude of capital flows, so we choose GDP, deflated in 2000 prices, to approximate the ***market size***. However, some studies suggested using per capita income as a representative for market size, so we include ***per capita GDP*** in our analysis. ***Government expenditures*** are thought to play a role in foreign investors' investment decisions; they are deflated in 2000 prices and included in the analysis. Finally, ***production*** and ***labor cost*** indexes are included too.

Since the dataset spans over 30 years, I transformed the variables to make the series stationary. Capital flow variables, stock market index, exports & imports, market size, government expenditures, production and labor cost are first logged and then taken their first difference to have approximately normally distributed variables. Interest rates and market openness measure are only first differenced. Exchange rates are expressed in percentage changes in national currency per SDR in a year.

2.2 Manifesto Data Set

The variables on political party characteristics are obtained from Comparative Manifesto Project; a project conducted by Manifesto Research Group and based on content analysis method. Instead of relying on surveys of electors' perceptions about the positioning of polit-

ical parties, Comparative Manifesto Project focuses on examining parties' and governments' own statements of policy, in the context of election programs (manifestos) and declarations in the parliamentary debate before a vote of confidence or investiture (Budge et al. ,2001) The method is simply categorizing sentences in party manifestos into pre-determined policy stances and calculating the relative importance of each policy by finding the relative number of sentences in each category with respect to the whole manifesto. The underlying assumption is that a right-wing party would devote more space (or sentence) to favorable mentions of free enterprise capitalism, free trade and limitations on social services in its election manifesto whereas, a left-wing party manifesto would include more on the limitation of military expenditures, economic planning and protection of domestic markets through tariffs and quotas.

With this method, each party in each country gets a score on each policy stance at every election and it is these scores that place political parties on the right-left spectrum in the ideology space. These political party characteristics are grouped under 7 main categories and 61 sub-categories in total. These are listed in Table-7 and Table-8 in Appendix.

3 Methodology

There is no consensus on the determinants of FDI in economic theory and in the past literature. Schmitz & Bieri(1972) and Lunn(1980) find a positive relation between trade barriers and FDI where Beaurdeau(1986) and Blonigen & Feenstra(1996) find it to be insignificant. Culem(1988), Tsai(1994), and Shamsuddin(1994) show that trade deficit has a positive effect on FDI where on the other hand, Schneider & Frey(1985), Lucas (1983), and Pistoresi(2000) show the opposite. Thus, we do not have a complete specification of which variables are to be held constant when statistical tests are performed on the relation between foreign direct investment and the independent variables of primary interest. Due to this reasoning, there may be many candidate models with equal status in a therotical sense,

and in each model, the coefficients of variable of interests may depend on the conditioning set of information that varies from one model to another. This section motivates the use of Extreme Bounds Analysis (EBA) in testing the robustness of the coefficients of political variables (i.e. political party characteristics) to alterations in the conditioning information set (i.e. economic fundamentals).

Following Leamer(1985) and Levine & Renelt (1992), EBA uses the following regression;

$$Y = \alpha + \beta X + \gamma I + \delta Z + \epsilon \tag{1}$$

where Y represents the dependent variable, X is the vector of base model variables, I is the independent variable of interest that we want to test its robustness, and Z is a vector of independent variables chosen from an information set that is related to the dependent variable but not correlated with the base variables or the independent variable of interest.

The base model variables, X, will include the macroeconomic variables that are significant by themselves or in group and are less controversial in explaining the capital flow behavior considering the previous literature. Using economic theory on capital flows and model selection criteria, I choose the base variables that fits the best model using OLS. The variable of interest, I, will be the political party characteristic that will be chosen from the manifesto data set. The conditioning variables, Z, will be chosen from the pool of political party characteristics (i.e. manifesto data set) and will alter in every regression to yield a set of coefficients for the variable of interest, I. Then, we will define the *extreme upper bound* as the maximum value of γ produced by some combination of Z-vector plus two standard deviations. And *extreme lower bound* will be defined as the minimum value of γ produced by some combination of Z-vector minus two standard deviations. The degree of confidence we can have in the partial correlation between the dependent variable Y and I will be inferred from these extreme bounds in γ; if γ does not remain significant or changes its sign at the extreme bounds, then we have reason to believe that alterations in the conditioning informa-

tion set change the statistical inferences about the partial correlation between Y and I. In that case, the variable I would be considered fragile or not robust in the sense that there is not enough independent variation in the variable of interest to explain the bahaviour of the dependent variable. If γ remains significant and does not change its sign over the extreme bounds, then we can be confident about the robustness of the particular variable.

4 Results

4.1 Base Model

In order to construct the base model for the extreme bounds analysis(EBA), I run a crude OLS regression on FDI inflows with the macroeconomic variables that have been used in the previous literature on capital flows as regressors (Model 1). Capital flow data is known to have discrepancies from one source to another, so it is not unlikely to expect measurement errors in the data. In order to counteract the outliers in the dataset, I run a robust regression where the regression attaches small weights to observations with large residuals and bigger weights to observations close to the fitted line. Model 2 shows the result of this estimation in Table - 1.

Four variables stand out from the rest; stock market index, interest rate, imports and the exchange rate. It is natural to assume that imports and exchange rate would be correlated with each other; correlation table (Table - 2) also verifies this fact. In order to prevent collinearity in the model, we divide the variables into two sets and compare the goodness of fit to determine the base model for EBA. Table - 3 shows the model selection regressions; Model 3 & 4 are run with exchange rate and Model 5 & 6 are run with imports as part of the regressors. Model 3 & 5 are run using crude OLS regressions, Model 4 & 6 are run using robust regression technique. After taking outliers into account, model with imports as the independent variable is a better fit than the model with exchange rate. Hence, we use stock market index, interest rate and imports as the base model for EBA to test the robustness of

the political variables.

4.2 Extreme Bounds Analysis

As a first step in EBA procedure, I test the robustness of macroeconomic variables that I found to be significant in Model 6 using OLS. In these tests, I variables are stock market index, interes rate and imports. Z variables are exchange rate, market openness, gdp per capita, production, government expenditures, exports, wages and the I variables as well. Table - 4 shows the results. All three variables are robust in the sense that they do not change their sign and remain significant at the extreme bounds. The base model estimation on FDI inflows yields;

$$\begin{array}{rcccccc} \textbf{FDI} & = & 0.0134 + & 1.0834\ \textbf{StockIndex} + & 0.0996\ \textbf{InterestRate} + & 1.0316\ \textbf{Imports} \\ & & (0.28) & (4.48) & (3.64) & (2.15) \end{array}$$

The base model explains 19% of the variation in foreign direct investment inflows to six developed economies. For the EBA procedure on political variables, each political party characteristic mentioned in Table - 7 and Table - 8 will be tested under the variable I. Two conditioning information variables for the vector Z will be chosen from the manifesto data set, which includes 61 variables, on a revolving basis to test the robustness of the variable I. Choosing two variables out of 61 variables will run 1830 regressions per variable I. Table 5 shows the significant results for the EBA procedure.

According to the results, political party characteristic "***per105:*** *favorable mentions of decrasing military expenditures*" has a positive effect on FDI inflows and does not change its sign at the extreme boundaries. This might be somewhat puzzling in the sense that decrease in military expenditures is attributed to left-leaning governments (Budge et. al., 2001) and these parties' policies are not foreign-capital friendly in general. "***per303:*** *need for efficiency and economy in government and administration; cutting down civil service and improving*

governmental procedures" has a positive effect and it is robust at the extreme boundaries. This is supporting the argument that less red tapes and less government bureaucracy coupled with efficient administration are good incentives for foreign firms to invest in that particular economy. "***per304:*** *eliminate corruption and associated abuse in political and public life*" has a positive effect and it is robust at the extreme bounds. The transparency of the government and its effectiveness in cracking down the corruption should be an appealing factor for foreign firms since competing with the domestic industry should be easier for foreigners if the government is fair. "***per411:*** *importance of science and technological developments in industry; need for training and research*" has a negative effect on FDI inflows and it is robust at the extreme boundaries. This might be puzzling since one would expect the foreign capital to prefer a country with a developed infrastructure and technology. "***per504:*** *favorable mentions of need to introduce, maintain or expand any social service; support for health service or social housing*" has a negative coefficient and does not change its sign at the extreme boundaries. This characteristic is attributed to left-leaning governments and FDI inflows are expected to go down during their power.

5 Do Capital Flows Affect Election Outcomes?

Lastly, I look at the empirical relation from the other way around: Can capital flows affect electors' choices and have significant effect on election outcomes? In order to test this, I divide the political parties in each country into two groups: right-leaning parties (Group I) and left-leaning parties(Group II). Getting the highest vote in elections makes the party winner in elections, but not necessarily the government. But, here, I am interested in getting the most vote in elections as it reflects the electors' preferences over the ideologies. Then, I aggregate Group I and Group II across all countries in the data set. In the end, I have one group with all the right-leaning parties from all countries with their election results (1:win or 0:lose) and another group with all the left-leaning parties, again with their election outcomes.

Table - 6 shows the probit regression results of different type of capital flows' effect on the likelihood of winning the elections for left-leaning parties.[1] Numbers in the table are the marginal effects of each regressor on the election outcome. According to the table, lagged growth in per capita GDP decreases the probability of winning the elections for left-leaning parties. Past economic growth seems to benefit right-leaning parties in elections. Current and lagged foreign direct investment inflows, and current portfolio equity inflows have significant positive effect on the likelihood of winning the elections for left-leaning parties. Debt inflows have the expected positive sign but they are not significant. This verifies our observation that right leaning incumbent parties pay the cost of high foreign debt by losing the elections to left leaning parties.

6 Conclusion

Capital flows to developing economies show big variation from one country to another and it is mostly attributed to the differences in economic, institutional or political development level of those countries. However, for developed countries, it is hard to make such a claim and it is best to look for the clues of capital flow variation elsewhere. In this study, by using data from six developed economies, I focus on the governing political parties' position on key economic and social issues derived from their election manifestos. Intuitively, foreign investor would be more inclined to invest in the host economy if the governing party or the party that is leading the polls addresses the needs of the investor in its election program. Testing this intuition with extreme bounds analysis and data from Comparative Manifesto Project, I find that better administrative efficiency and lower corruption fuel foreign direct investment inflows. Also, parties favoring more military expenditures and social welfare programs tend to drive away the foreign capital. Spending less on military might imply the country being peaceful with its neigbours and attracting more capital from them or just simply point to

[1] Probit regression on the right-leaning group with same regressors would give the same coefficients with opposite sign.

the fact that government allocates more of its budget on more constructive purposes that is of use to the foreign capital.

More interesting issue than political party characteristics affecting capital flows is the exact opposite - capital inflows or foreign debt affecting the outcome of elections. Observations from elections around the world in recent history show that incumbent pro-business parties in countries burdened with high foreign debt almost always loses the elections. I test the claim by categorizing the political parties on the right-left spectrum in each country and calculating their likelihood of winning the election depending on the changes in capital flows. I find that even though past economic growth increases the chances of pro-business victory, higher foreign debt decreases its probability of winning the elections. This could be interpreted as the electors' disdain for foreign debt which may translate into higher taxes for them in the future.

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Table 1: Fundamentals

	(1) FDI	(2) FDI
StockIndex	1.139**	0.938***
	(3.06)	(3.62)
InterestRate	0.0207	0.0921***
	(0.54)	(3.48)
ExchangeRate	1.916	1.841
	(1.40)	(1.94)
Production	0.181	-2.058
	(0.08)	(-1.38)
Imports	3.458*	2.357*
	(2.41)	(2.36)
Exports	1.547	-0.204
	(0.93)	(-0.18)
Openness	-5.441	-0.638
	(-1.08)	(-0.18)
Government	-1.450	-1.684
	(-0.88)	(-1.47)
GDP	-1.963	1.360
	(-0.74)	(0.73)
PerCapitaGDP	-0.0469	-0.112
	(-0.30)	(-1.03)
Wages	-3.706	-2.819
	(-1.13)	(-1.24)
constant	0.0182	0.0601
	(0.21)	(0.99)
Observations	196	196
Adjusted R^2	0.1318	0.2147

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Notes: Model 1 is crude OLS, Model 2 is robust regression. FDI, StockIndex, Production, Imports, Exports, Government, GDP, PerCapitaGDP, Wages are log differenced; Openness is a first differenced measure of trade share; InterestRate is first differenced yearly average of 3-months treasury bills and ExchangeRate is the growth rate in national currency per SDR

	StockIndex	InterestRate	ExchangeRate	Production	Imports	Exports	Openness	Government	GDP	PerCapitaGDP	Wages
StockIndex	1.0000										
InterestRate	-0.1217	1.0000									
ExchangeRate	-0.0581	0.0905	1.0000								
Production	0.3315	0.3130	0.0331	1.0000							
Imports	0.0142	0.3946	-0.3119	0.5071	1.0000						
Exports	0.0243	0.3053	-0.4326	0.3812	0.8177	1.0000					
Openness	-0.0491	0.3953	0.4498	0.3157	0.3422	0.2438	1.0000				
Government	-0.0258	-0.0536	-0.7290	-0.0015	0.5172	0.6171	-0.4412	1.0000			
GDP	0.1128	0.0070	-0.7590	0.2057	0.6086	0.7032	-0.4086	0.9128	1.0000		
PerCapitaGDP	-0.0650	0.0767	0.0734	0.0120	-0.0302	-0.1058	-0.0296	-0.1169	-0.0738	1.0000	
Wages	-0.0845	-0.0092	-0.0151	-0.0381	0.0740	0.0433	0.0066	0.1437	0.0724	-0.2833	1.0000

Table 2: Correlations

Table 3: Fundamentals II

	(3) FDI	(4) FDI	(5) FDI	(6) FDI
StockIndex	1.304***	1.005***	1.256***	1.000***
	(3.95)	(4.29)	(3.80)	(4.35)
InterestRate	0.0866**	0.124***	0.0604	0.102***
	(2.61)	(5.28)	(1.69)	(4.11)
ExchangeRate	1.715*	0.662		
	(2.03)	(1.10)		
Imports			1.393*	1.067*
			(2.19)	(2.41)
constant	0.0632	0.0690	-0.000142	0.0196
	(1.13)	(1.74)	(-0.00)	(0.44)
Observations	199	199	199	199
Adjusted R^2	0.0999	0.1702	0.1029	0.1944

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Notes:Model 3 & 5 are crude OLS and Model 4 & 6 are robust regressions.

Table 4: EBA Results - Macro Variables

I		γ	t-stat	.95 Conf. Int.	VIF	Zs
StockIndex	min	0.7912	2.8605	0.2455 — 1.3369	1.11	Production Wages
	max	1.1287	4.604	0.6451 — 1.6124	1.02	InterestRate PerCapitaGDP
Imports	min	1.0316	2.1479	0.0842 — 1.9789	1.21	InterestRate StockIndex
	max	2.9077	3.6121	1.3198 — 4.4957	3.54	Openness Government
InterestRate	min	0.0651	2.1805	0.0062 — 0.124	1.95	Imports Government
	max	0.1241	4.8994	0.0741 — 0.1741	1.01	StockIndex Wages

Notes: VIF is variance inflation factor that measures possible multicollinearity in the regressors. VIF=1 is no collinearity, and VIF=10 is highly suspected of collinearity. "max" refers to the maximum coefficient γ that is used to find the extreme upper bound by $\gamma_{\text{MAX}} + 2\sigma$ and "min" refers to the minimum coefficient γ that is used to find the extreme lower bound by $\gamma_{\text{MIN}} - 2\sigma$. Zs are the conditioning variables that are chosen from the pool of political party characteristics, and are used in the regression to find γ_{MAX} and γ_{MIN} for each variable of interest I.

Table 5: EBA Results - Political Variables

I		γ	t-stat	.95 Conf. Int.	VIF	Zs
per105	min	0.0637	1.9851	0.0004 — 0.1270	1.32	per103 per505
	max	0.0684	2.0859	0.0037 — 0.1331	1.38	per103 per203
per303	min	0.0247	1.9923	0.0002 — 0.0491	1.23	per107 per412
	max	0.0334	2.3486	0.0053 — 0.0614	1.35	per403 per502
per304	min	0.0228	1.9863	0.0001 — 0.0455	1.23	per411
	max	0.0353	2.8073	0.0105 — 0.0601	1.23	per403
per411	min	-0.0286	-3.0599	-0.0471 — -0.0102	1.23	per407 per503
	max	-0.0186	-2.0704	-0.0362 — -0.0009	1.25	per304 per403
per414	min	0.0315	1.9848	0.0002 — 0.0629	1.25	per105 per401
	max	0.0355	2.0766	0.0018 — 0.0693	1.67	per601 right-left
per504	min	-0.0283	-2.1943	-0.0537 — -0.0028	1.45	per104 per413
	max	-0.0275	-2.1623	-0.0526 — -0.0024	1.77	per413 right-left
welfare	min	-0.0197	-2.0301	-0.0388 — -0.0005	1.34	per104 per608
	max	-0.0195	-1.9816	-0.039 — -0.0001	1.41	per104 per401

Notes: VIF is variance inflation factor that measures possible multicollinearity in the regressors. VIF=1 is no collinearity, and VIF=10 is highly suspected of collinearity. "max" refers to the maximum coefficient γ that is used to find the extreme upper bound by $\gamma_{\text{MAX}} + 2\sigma$ and "min" refers to the minimum coefficient γ that is used to find the extreme lower bound by $\gamma_{\text{MIN}} - 2\sigma$. Zs are the conditioning variables that are chosen from the pool of political party characteristics, and are used in the regression to find γ_{MAX} and γ_{MIN} for each variable of interest I.

Table 6: Probability of Winning The Elections

	(1) WinElection	(2) WinElection	(3) WinElection	(4) WinElection	(5) WinElection	(6) WinElection
FDI Inflow	0.123**					
	(2.64)					
FDI Inflow(-1)		0.136**				
		(2.61)				
Portfolio Equity			0.133*			
			(2.14)			
Portfolio Equity(-1)				0.0533		
				(1.34)		
Portfolio Debt					0.0739	
					(1.45)	
Portfolio Debt(-1)						0.0467
						(1.09)
PerCapitaGDP(-1)	-0.396	-0.400	-0.466	-0.404	-0.369	-0.384
	(-1.87)	(-1.81)	(-1.93)	(-1.93)	(-1.76)	(-1.76)
Log Likelihood	-33.95	-33.41	-26.24	-30.38	-35.01	-32.96
LR χ^2	10.26	10.53	7.11	5.04	4.17	3.81
R^2 pseudo	0.13	0.14	0.12	0.08	0.06	0.05

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Marginal effects; t statistics in parentheses

Notes:Capital flows are expressed in log levels in 2000 prices. Per capita GDP is log differenced to show the effect of past economic performance on election outcomes.

Domain 1: External Relations
101 Foreign Special Relationships: Positive
102 Foreign Special Relationships: Negative
103 Anti-Imperialism: Positive
104 Military: Positive
105 Military: Negative
106 Peace: Positive
107 Internationalism: Positive
108 European Integration: Positive
109 Internationalism: Negative
110 European Integration: Negative

Domain 2: Freedom and Democracy
201 Freedom and Human Rights: Positive
202 Democracy: Positive
203 Constitutionalism: Positive
204 Constitutionalism: Negative

Domain 3: Political System
301 Decentralisation: Positive
302 Centralisation: Positive
303 Governmental and Administrative Efficiency: Positive
304 Political Corruption: Negative
305 Political Authority: Positive

Domain 4: Economy
401 Free Enterprise: Positive
402 Incentives: Positive
403 Market Regulation: Positive
404 Economic Planning: Positive
405 Corporatism: Positive
406 Protectionism: Positive
407 Protectionism: Negative
408 Economic Goals
409 Keynesian Demand Management: Positive
410 Productivity: Positive
411 Technology and Infrastructure: Positive
412 Controlled Economy: Positive
413 Nationalisation: Positive
414 Economic Orthodoxy: Positive
415 Marxist Analysis: Positive
416 Anti-Growth Economy: Positive

Domain 5: Welfare and Quality of Life
501 Environmental Protection: Positive
502 Culture: Positive
503 Social Justice: Positive
504 Welfare State Expansion: Positive
505 Welfare State Limitation: Positive
506 Education Expansion: Positive
507 Education Limitation: Positive

Table 7: Comparative Manifesto Project - Categories and Sub-Categories of Political Party Characteristics

Domain 6: Fabric of Society	**Domain 7: Social Groups**
601 National Way of Life: Positive	701 Labour Groups: Positive
602 National Way of Life: Negative	702 Labour Groups: Negative
603 Traditional Morality: Positive	703 Farmers: Positive
604 Traditional Morality: Negative	704 Middle Class and Professional Groups: Positive
605 Law and Order: Positive	705 Underprivileged Minority Groups: Positive
606 Social Harmony: Positive	706 Non-Economic Demographic Groups: Positive
607 Multiculturalism: Positive	
608 Multiculturalism: Negative	

Programmatic Dimension

Planeco = 403 + 404 + 412
Markeco = 401 + 414
Welfare = 503 + 504
Intpeace = 102 + 105 +106
Right - Left = (per104 + per201 + per203 + per305 + per401 + per402 +per407 + per414 + per505 + per601 + per603 + per605 +per606) - (per103 + per105 + per106 + per107 + per403 +per404 + per406 + per412 + per413+ per504 + per506 +per701 + per202)

Table 8: Comparative Manifesto Project - Categories and Sub-Categories of Political Party Characteristics (continued)