

The Financial Determinants of Party Manifestos: US-Monetary Cycles and the Global Supply of Neo-liberal Rhetoric

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Abstract: Financial globalization pressures governments to adopt “pro-capital” policies. The extent of that pressure is typically conceptualized as a country’s position within a complex competitive network. When governments adopt pro-capital positions, other governments in “competitor” countries are pressured to follow suit, lest capital flee to other economies. We theorize that financial globalization-induced pressures can alternatively be described by a simpler “hub and spoke” system with an increasingly dominant American banking sector in the hub position. We hypothesize that the extent to which politics must accommodate the financial sector is largely determined by credit conditions in the United States, which are transmitted globally with little capacity for domestic governments to intervene. High US interest rates constrict access to capital outside of the hub and force governments around the world to offer more pro-capital positions in response. Low US-interest rates do the opposite. We test our theory using party manifestos from 59 countries between 1962-2017. In accordance with our theoretical expectations, high U.S. interest rates correlate with more market friendly political rhetoric, especially in countries with large stocks of short-term debt and at times when financial markets are dependent on US banking.

Financial globalization's rise since the fall of Bretton Woods is often thought to have enhanced capital's political leverage. Governments are structurally dependent on capital, and capital's freedom to move pressures policymakers to adopt capital-friendly positions. To buck capital in an era of financial globalization is to risk capital flight as well as deteriorating credit conditions for public and private borrowers.

Notwithstanding international finance's rise, global trends towards market-friendly policymaking and rhetoric over the past forty years have been erratic. Not every government has been equally responsive to capital's interests, and the extent of their responsiveness has varied over time.

A variety of explanations have been proposed to understand this variation.¹ A particularly large literature has developed around the notion that heterogenous outcomes are best described by a country's position within a competitive international network, where positionality is defined by the similarity of countries' investment opportunities or industrial profiles. In this network-based view, the pressure to adopt a capital-friendly appearance comes from the actions of competing governments. Pro-capital shifts by a government in one part of the network pressure countries in proximate parts of the network to follow suit.² The absence of such shifts among "peer" governments reduces the pressures for convergence, shielding a nation's politics from the need to appear capital-friendly.

¹ These include a focus on variation in political institutions (Basinger and Hallerberg 2004) and divergent social norms (Plümper, Troeger, and Winner 2009; Devereux, Lockwood and Redoano, 2008).

² Elkins, Guzman and Simmons 2006, Kerner and Kucik 2010, Basinger and Hallerberg 2004, Garretsen and Peeters 2007. Of course, those pressures are not automatically translated into policies. That translation depends on, among other things, domestic political institutions (Basinger and Hallerberg 2004; Kerner and Kucik 2010) and social norms (Plümper, Troeger, and Winner 2009; Devereux, Lockwood and Redoano, 2008).

We suggest that these network-based models obscure a more straightforward way that financial globalization creates pressures for market-friendly policies. We adopt an image of financial globalization in which financial globalization is less a complex network of interconnected economies, and more of a hub and spoke model with the US banking sector occupying the hub position. Among financial globalization's defining features is the dominance of the US financial sector, and its consequent capacity to transmit US credit conditions abroad. U.S.-headquartered financial institutions and their subsidiaries lend globally, and the US dollar accounts for roughly 50% of cross-border bank claims, 60% of foreign exchange assets, and 90% of foreign exchange (Bank of International Settlements 2017). Loose credit conditions in the United States beget loose credit conditions elsewhere, and tight credit conditions in the United States create tight credit conditions elsewhere. Because these global cycles remain within the credit channel, they are not necessarily mediated by domestic monetary policy and pose a "dilemma" in which the US dominance of the global financial system necessarily subjects local credit conditions to the influence of US monetary policy.³

Our theory of politics follows this hub and spoke image of financial globalization. We, like the extant literature, presume that capital-friendly politics are (at least in part) the product of governments' aim to remain internationally competitive, and that the pressure to adopt capital-friendly positions increases as the competition for capital becomes stronger. We part with the extant literature in locating those pressure as emanating from US credit markets, rather than from a complex web of competitive pressures. Tight credit conditions in the US

³ Rey (2016).

exogenously increase the risk-free cost of capital everywhere, increasing borrowing costs around the world. Those credit conditions drive the demand for market-based neoliberal politics, which help borrowing firms cope with high financing costs by allowing them to more easily cut labor and compliance costs, and by reducing the country-specific risk premia they would otherwise be charged by lenders.

We test our theory by analyzing the “market friendliness” of political parties using data from The Manifesto Project. These data code electoral programs published by parties during election campaigns for over 50 countries. We demonstrate that party manifestos become more market-friendly during periods of high U.S. interest rates. We also test several corollaries of our argument, finding find that this relationship is more pronounced during periods when US banking is more globally dominant, and in countries where borrowers face more immediate financing needs. For all the complexities of financial globalization’s effect on politics, much of it appears to be a straightforward reaction to US credit conditions in a global economy dominated by US finance.

This paper makes a variety of contributions, most directly to our understanding of how the need to attract globally mobile capital diffuses market-preferred ideas.⁴ We also contribute to the literature on the determinants of political manifestos. That literature tends to emphasize how the responsiveness of party positions to public opinion depends on globalization and how party positions on globalization respond to domestic political and institutional factors.⁵ Beyond the differences in the theories, our focus on US-driven global credit cycles has the

⁴ Simmons and Elkins (2004), Elkins et al. (2006), Quinn and Toyoda (2007), Simmons (2000), Bodea and Hicks (2015), Betz and Kerner (2016).

⁵ Nelson and Way (2007), Adams, Haupt and Stoll (2009), Ward, Ezrow and Dorussen (2011), Ezrow and Hellwig (2014), Hellwig (2014), Sedef and Barry (2018), Taylor (2020). With few exceptions, such as Milner and Judkins (2004) and Sedef and Barry (2018), this work focuses on small samples of Western democracies or developed countries.

appeal of stressing aspects of the global economy that are entirely outside of domestic control, and thus clearly exogenous to domestic politics.⁶ Our paper thus joins a growing literature emphasizing the central role of the U.S. in the global financial system (Pluemper and Troeger 2008, Agrippino and Rey 2015, Rey 2016, Betz and Kerner 2016, Oatley and Galantucci 2019, Ballard-Rosa, Mosley and Wellhausen n.d.). Of course, our focus on systemic drivers does not deny that domestic variation matters; indeed, we consider one such domestic factor (debt structure) in this paper and find that it does moderate the impact of US financial hegemony. But our focus on systemic factors outside domestic political control shows that the average effect of global credit cycles is large enough and consistent enough to be evident in the data, without any need to consider its interaction with domestic politics or economic conditions.

A final contribution is that our theory implies globally correlated swings in pro-market policies across the world. The existence of such swings is well known, but their origins are often tied to the power of “ideas,” to the coercive power of the IMF and World Bank, or the leadership of global hegemons. Our study buttresses those arguments by offering an explanation based on international financial markets. The logic of market appeasement – and thus the power of ideas, institutions such as the IMF and the World Bank, and large states with an interest in maintaining international markets and international order – is strongest when US interest rates are high. Those high interest rates are an important backdrop against which the more proximate and historically contingent processes that shepherded in neoliberal capitalism could obtain. This also offers a new perspective on the complex relationship between political and economic power in international politics: Economic conditions in the U.S., with its dominant economic role in the international financial system, shape the willingness of

⁶ An exception is Milner and Judkins (2004). Their globalization measure – world transportation costs -- is exogenous.

governments abroad to appease international capital, and thus support the international economic order created by the U.S. In a similar vein, it suggests that the persistently low interest rates following the 2008 crises, magnified most recently by the fallout associated with COVID-19, have shaped the political discourse and expanded the scope for market-skeptical politics. Again, that is not to doubt the importance of country and leader-specific processes, but our paper indicates that persistently low interest rates create a fertile ground for those processes to play out by reducing the leverage of global capital.

The remainder of this paper is organized as follows. Section II describes global capital cycles, the central role of the U.S. dollar in the international economy, and the ways in which changes in U.S. interest rates are transmitted globally. Section III describes the existing literature on political reactions to global capital cycles and derives our hypotheses. Section IV describes our empirical tests. Section V concludes and notes potential extensions to this work.

Section II: Background: Global Capital Cycles & the Competition for Capital

Recent work by Rey (2013, 2014, 2016) and Miranda-Agrippino and Rey (2015) argues that capital mobility within the global banking system transmits credit conditions in the world's financial centers, bypassing governments' ability to insulate the economy using monetary policy. As Rey notes, this transforms Mundell-Fleming's trilemma into an even more constricting "dilemma". Given the extent of US dollar dominance, Rey's "dilemma" is one in which the global projection of American credit conditions is an inevitable biproduct of financial globalization.

According to Rey's "dilemma," US dollar dominance in global banking transmits shocks to American credit conditions globally to other countries. On the supply side, loosening

US credit allows dollar-based financial intermediaries to borrow more,⁷ and incentivizes them to expand their activities abroad in search of higher yield. As the monetary loosening in the United States manifests as a credit expansion globally, it reduces the cost foreign borrowers pay to service their existing debts and appreciates their equity prices, improving their balance sheets by lowering debt to equity ratios and facilitating even more lending.⁸ Monetary tightening in the United States puts that process in reverse. Tight US monetary policy decreases risk appetite and equity values among dollar-denominated lenders, which leads them to deleverage and reduce credit availability abroad. That, in turn, undermines foreign balance sheets and renders borrowers around the world less creditworthy.⁹ These dynamics play out entirely within the credit channel, and they obtain regardless of exchange rate regimes. That is, there is little foreign governments can do to avoid the ebb and flow of US-led global credit cycles, short of disconnecting from global financial markets altogether.¹⁰

Section III: Political Reactions to Global Credit Cycles

If we take as a starting point that globalization's effect on the cost of capital is to a great degree the result of US credit conditions being transmitted globally through the banking system, the question then becomes: How do politicians react? We argue that they react by

⁷ Borio and Disyatat (2011); Adrian, Moench and Shin (2010).

⁸ Bernanke And Gertler (1995); Rey (2013: 299-300); Shin (2012).

⁹ Miranda-Agrippino and Rey 2018.

¹⁰ While these notions have received new and important attention in Rey's work, the US interest rates' impact on global capital availability is echoed in other work as well (e.g., di Giovanni and Shambaugh 2008; Frankel and Roubini 2001; Calvo, Leiderman, and Reinhart 1993). As summarized by Frankel and Roubini (2001, p. 6), "the most important identifiable factors behind [global capital flows] were US interest rates and other macroeconomic variables external to the emerging market countries."

adopting more market-friendly politics when US credit conditions are tight, and less market-friendly politics when US credit conditions are loose.

Our core premise is that governments are interested in their firms being able to access cheap credit, because doing so helps the economy generally and because doing so helps domestic firms, which are typically important interest groups. The credit costs that firms face include systemic and country-specific components, and US interest rates operate mainly on the former. Credit cycles originating in US monetary policy shapes the risk-free rate of return such that rising interest rates in the US treasury market put upward pressure on borrowing rates elsewhere. US monetary policy also affects firms cost of capital through its effect on asset prices in non-US markets. Rising US interest rates draw money into the financial core, depressing asset prices elsewhere and limiting the value of equity against which firms borrow. As it does, the now more highly leveraged firms appear riskier and must accordingly pay more in interest if they want to increase their debt load.

Thus, while politics is often concerned about the cost and availability of credit, components of that cost are substantially impacted by US monetary policy and, following Rey, there is little that foreign governments can do about it short of unplugging from the global financial system. Our core argument is that politics will compensate for exogenous tightening in local credit markets by offering capital friendly politics in order to lower perceptions of country-specific political risk. That is to say, when faced with adverse dynamics in the parts of credit markets they do not control, government respond by compensating in the area that remain substantially within their control¹¹ In that way, governments might embrace

¹¹ While we do not theorize those costs here, we stipulate for our purposes that adopting pro-capital policies is not costless and that there is a reason why countries limit the extent to which they use public policies to drive down R_c even without an interest rate induced incentive. The

deregulation, or capital-friendly taxation or any number of policies which, in their absence, might feed into the extra cost of being located in a country whose politics and/or macroeconomic conditions render local borrowers risky. Importantly for our purposes, we argue that governments should embrace these positions rhetorically as a means of signaling to potential investors and potential borrowers that they are committed to doing all they can to bring down borrowing costs.

The dynamic in which higher borrowing costs lead politicians to promote market-embracing politics is well documented. Similar themes of credit market-dictated shifts in policymaking are often attributed to, among others, about-faces in policy orientations in the first Clinton administration (Mosely 2000: 738, fn 10) and France under Francois Mitterand (Tiberghien 2007). Our innovation is to recognize that financial globalization has unfolded in such a way that those dynamics are globally linked to financial conditions in the US. As US credit conditions tighten, economies around the world experience the sort of credit tightening that incentive them to adopt such policies.

This leads us to our first main hypotheses.

H1: Higher US interest rates will yield more market friendly politics

Considering that financialization incentivizes market-friendly politics through the credit channels also presents a new set of propositions about which governments will be more likely to adopt market-friendly policies as a result of high US interest rates. Inherent to our first hypothesis is that borrowers require constant access to credit, and that a more market-friendly

cost of doing so could be driven, for example, by fairness norms (Plümper, Troeger, and Winner 2009), by the need to extract from capital sufficient resources to provide public goods (Devereux, Lockwood and Redoano, 2008), or by constraining the government's scope to regulate in accordance with perceptions of the public interest (Paulsen and Aisbett 2013).

approach will serve political and economic ends during a credit market tightening. And while that is broadly the case, it is also true that credit needs vary according the maturity structure of a borrower's debt load. When borrowers finance themselves primarily through short term debt—which is typical of marginal borrowers seeking cheaper access to finance—they are particularly affected by a tightening credit cycle that they will, by definition, be forced to refinance into. Borrowers with longer debt maturities are less likely to have substantial refinancing needs at any particular time, and their governments will face fewer pressures to adjust policymaking to the credit conditions that prevail at the time. Whether or not these external liabilities are dollar-denominated themselves, the need for countries and firms to continuously seek financing from external sources raises their stakes in global credit cycles. This anticipates our second hypothesis:

H2: The relationship between US interest rates and market friendly rhetoric will be greater in economies with substantial short-term external liabilities.

Additionally, while it is true that American finance has long dominated international banking, it has not always been so and there is substantial amount of variance in that dominance across our sample. We would expect the global consequences of changes in the US credit market to be greatest when their reach of greatest. Thus, our third hypothesis is:

H3: The relationship between US interest rates and market friendly rhetoric will be greater in periods where American financial institutions have an especially large presence abroad.

Section IV: EMPIRICAL EVIDENCE

Dependent Variables

Our empirical tests create measures of parties' policy positions by drawing on data from the Manifesto Project (Volkens et al., 2018), which we supplement with data from the South American version of the data set (Krause et al., 2018). The Manifesto Project records and codes the electoral programs published by individual parties during election campaigns, for over 50 countries. The coders of the Manifesto Project parsed each electoral program into quasi-sentences, classified those quasi-sentences into different categories, and then calculated the share of a document's quasi-sentences devoted to each category. The resulting dataset provides systematic information about electoral statements for on average eight different parties, with a maximum of 16 parties, per election. As described below, we use these data to form three different variables each one capturing an alternative vision of the market-friendliness of political parties' rhetoric and programmatic commitments.

Focusing on policy statements from political parties as opposed to policy outcomes serves two purposes. From a methodological standpoint, focusing on political rhetoric rather than policy outcomes allows us to sidestep consideration of how and to what degree political institutions allow for quick policy adoption, and which specific policies would best represent a meaningful move towards market-friendliness in any given country. An identical shift in politics towards market-friendly policies cannot be expected to manifest in similar policies in different countries or at a similar rate. Those are better represented in shifting political rhetoric. Moreover, party rhetoric matters substantively, and not just as a proxy for policy reform. Those publicly assumed policy commitments likely guide policies, but at a minimum a movement towards more market-friendly rhetoric suggests political parties' belief that important constituencies will find the public projection of market-supportive policies appealing.

Using these data, we calculate three variables that capture the extent to which parties engage in market-friendly rhetoric. All three variables are coded such that higher values correspond to more market-friendly rhetoric in the party manifestos.

Our first dependent variable follows Carrubba (2001) and considers endorsements of a free market economy and economic orthodox policies – which include support for a reduction of budget deficits, fiscal retrenchment, and free market capitalism over government interference – as market-friendly policies. We subtract from a count of those statements count of statements that endorse market regulation, economic planning by the government, and government control of the economy.¹² The resulting measure can be roughly understood as the net market-friendliness of a political parties' manifesto. We label this variable **market-friendly rhetoric**.

Our second dependent variable focuses on the market friendliness of rhetoric surrounding trade policy and nationalizations, which have historically been common responses to global financial pressures¹³ as governments may rely on expropriation and/or nationalization to garner revenue when capital through more traditional forms is difficult¹⁴ or when strategically important industries require capital infusions on a scale that is either unaffordable or unavailable on private markets. To do so we expand on Carrubba's coding by additionally considering statements against protectionist trade policies as market-friendly policies, and subtract statements in support of protectionist trade policies as well as statements in support of

¹² In terms of the variables including the Manifesto Project, this corresponds to (per401 + per414) - (per403 + per404 + per412).

¹³ Eichengreen (2008); Irwin (2013); Broz and Werfel (2014).

¹⁴ Wellhausen (2015).

nationalization.¹⁵ Because of its added emphasis on the domestic economy relative to the international economy, we label this variable **foreign market-friendly rhetoric**.

Our third dependent variable considers whether the global interest rate environment correlates with broader shift in parties’ political orientation. The Manifesto Project’s partisanship indicator, which combines statements on a range of issues that are considered as ‘left’ or ‘right’ issues – including the economic issues we consider in the first two variables, but also including social policy, education policy, and security policy. We label this variable **right-wing rhetoric**.

Figure 1 plots histograms of all three variables for our sample. A substantial number of party programs make very few statements on market-friendly rhetoric or foreign market-friendly rhetoric, as indicated by the narrow spread of the variable and the clustering around zero. But more than 90% of party programs make at least some statements that can be considered market-friendly or market-antagonistic. As suggested by the right-most histogram, a much larger percentage of statements can be characterized as being left or right-wing.

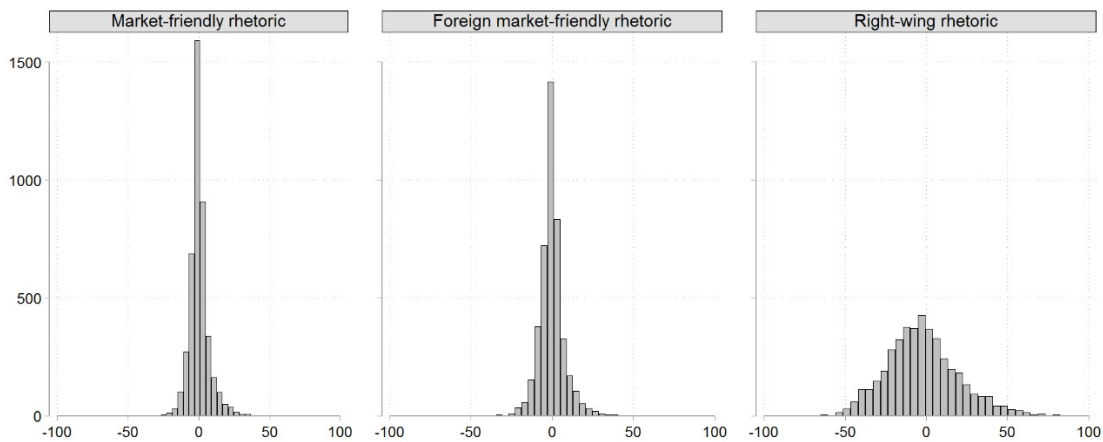


Figure 1: Histograms of dependent variables: market-friendly rhetoric, foreign market-friendly rhetoric, and right-wing rhetoric. Less than 10% of party programs make no mentioning of market-

¹⁵ This corresponds to $(\text{per401} + \text{per407} + \text{per414}) - (\text{per403} + \text{per404} + \text{per406} + \text{per412} + \text{per413})$.

friendly or market-antagonistic policies. Source: Authors' calculations based on the Manifesto Project (Volkens et al., 2018; Krause et al., 2018).

Independent Variables

Our main independent variable short- and long-term measures of U.S interest rates. We use the interest rate yield (based on market bid prices) on one-year U.S. government bonds to capture short-term movements in U.S. interest rate and the interest rate yield (based on market bid prices) on ten-year U.S. government bonds to capture long-term movements in U.S. interest rates.

We use monthly data on U.S. government bond yields from Thomson Reuters Eikon to calculate the yearly average interest rate yield. We lag both variables by one year (though our results are robust to using the current values). Our results are also robust to using the end of year interest rate in the previous year or the beginning of year interest rate in the current year.

Figure 2 plots the interest rate yield on 1-year U.S. government bonds and the interest rate yield on 10-year U.S. government bonds over time. The figure shows substantial variation in the U.S. interest rate environment over time, including the sharp increase in U.S. interest rates in the early 1980s, the drop to near-zero interest rates following the Great Recession and the persistence of these low interest rates, and the gradual increase in interest rates afterwards. The figure also indicates the smoother movement of long-term interest rates compared to short-term interest rates: whereas the 1-year bond yield dips and spikes several times, the 10-year bond yield smooths out some of this volatility.

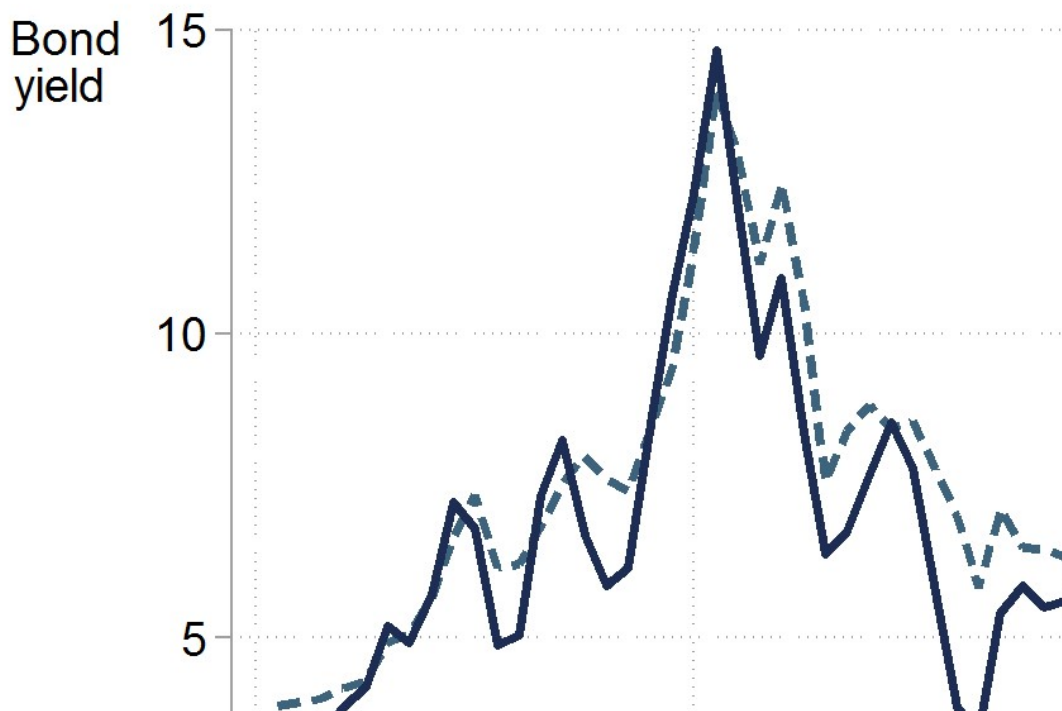


Figure 2: U.S. government bond yields, for 1-year bonds (solid line) and 10-year bonds (dashed line), during the sample period, 1962-2017. Average bond yield per year, based on monthly data. Source: Authors' calculations, based on Thomson Reuters Eikon.

Before turning to the model specification and sample description, we highlight an attractive aspect of our theory and research design: U.S. interest rates are almost certainly not responding to party programs in other countries. They are also unlikely to change in response to economic conditions in any single country (especially when looking at smaller markets) that would be reflected in party programs. Of course, U.S. interest rates and economic conditions may be correlated through broader underlying factors, such as the Great Recession in 2008 – but to the extent that this is the case, U.S. interest rates actually reflect the global financial market environment.

Specification

Our empirical models include standard control variables, all lagged by one year. These include two correlates of U.S. interest rates: the annual U.S. GDP growth rate as well as the annual U.S. inflation rate, based on consumer prices. Accounting for U.S. inflation allows our measure of interest rates to reflect real interest rates.¹⁶ Second, we account for the domestic economic environment in each country by including the GDP growth rate, the domestic inflation rate (again based on consumer prices), log GDP, and GDP per capita. All control variables are from the World Bank. In additional results, we also account for the domestic institutional and political context, such as the electoral rule and the number of parties; and we offer models with country or party fixed effects.

We estimate linear regression models with clustered standard errors to account for the likely persistence in party programs over time; we also include a lagged dependent variable in some of the models below and present results with double clustered standard errors (Cameron, Gelbach, and Miller, 2011), which account for the non-nested structure of our data: party programs display persistence across time, whereas U.S. interest rates are identical across space. With control variables included, our sample covers 930 different parties from 57 countries between 1963 and 2017, for a total of 3,335 observations that comprise 525 elections.

The sample coverage is dictated by the availability of party programs through the Manifesto Project (with the exception of the United States, which we drop from our sample). The countries included in the sample are shown in grey in Figure 3. The sample includes high- and middle-income countries, and both OECD and non-OECD members.

¹⁶ Alternatively, we could subtract nominal interest rates from inflation rates. Following Arell-Bundock, Blais, and Dassonneville (forthcoming), who discuss the interpretation of such compound variables, we prefer to include the variables separately.

Countries included in the sample



Figure 3: Countries included in the sample (in grey) and countries without data on party programs (in white).

Results

Table 1 presents our main results. To summarize the main takeaways, as anticipated by Hypothesis 1, higher U.S. interest rates are associated with a systematic shift toward more market-friendly rhetoric in party programs.

The first two columns use market-friendly rhetoric as dependent variable; columns three and four use foreign market-friendly rhetoric; and columns five and six move toward the broader right-left index of party programs. Odd columns report the models with the yield on one-year bonds; even columns report the models with the yield on ten-year bonds.

The effects of U.S. interest rates are statistically significant at the 1% level in all six models. The effects are also substantively meaningful. Table 2 displays the effects of a one standard deviation increase in the U.S. interest rate on all three dependent variables; we report both the absolute increase in each dependent variable, in percentage points, and the increase relative to the sample average, in percent. A one-standard deviation increase in the interest rate

on one-year government bonds results in an increase in market-friendly rhetoric of about 1.24 percentage points, or a nearly ten-fold increase relative to the sample average; the corresponding effects for ten-year government bonds are very similar, with a 1.36 percentage point increase.

We also find evidence of a more general right-wing shift in party programs: references to right-wing issues, relative to left-wing issues, increase by about 3.5 percentage points, which corresponds to a 163 percent increase relative to the sample average. Thus, we observe an increased emphasis on economic issues, and a shift to market-friendly statements, in party programs. But this change is also accompanied by a more general shift to right-wing rhetoric on other issue dimensions as well.

Notably, when instead using a measure of overall partisan language in party programs (instead of the difference between right-wing and left-wing topics, the sum of the two), we find no statistically significant effect of U.S. interest rates for market-friendly statements, and a significant negative effect for broader right-wing rhetoric. This suggests that parties are not trying to assuage markets by adding market-friendly rhetoric to existing, potentially more antagonistic, statements. Instead, these results suggest that parties are indeed shifting their programs away from market-restricting policies toward market-friendly policies.

Several of the control variables have intuitive effects. Market-friendly party statements are, for example, less popular during periods of high economic growth – plausibly because in such contexts parties have the fiscal space, and the political environment, to advance non-market and non-economic policies. The results also suggest a market power effect: larger economies, as measured by log GDP, appear to engage in substantially less market-friendly rhetoric.

In Table 3, we demonstrate that these effects are also evident in within-party shifts over time by including party fixed effects. These fixed effects account for all party-specific attributes that are constant over time. Consequently, the estimates can be interpreted as indicating within-party changes in rhetoric in response to changes in U.S. interest rates – regardless of a party’s general stance on market-friendly rhetoric. This indicates that the responses of individual parties drive the entire party system towards more capital-friendly policy positions. In additional results (not reported), we also find some evidence that effects exist regardless of a party’s prior positions, but are strongest for parties that already occupied right-leaning positions in the past.

We also present a series of ‘placebo tests’ in Table 4 to evaluate whether parties indeed move toward capital-friendly rhetoric when U.S. interest rates tighten, or whether parties just moved toward more right-leaning rhetoric in general. These results also allow us to separate out whether we are indeed picking up the economic consequences of fluctuations in U.S. interest rates, or whether these are reflections of some other underlying trend that drives party positions. We consider three dependent variables as placebos. All three are based on the Manifesto Project index of right-left positions, which aggregates thirteen party positions on typically right and typically left issues. First, for each observation, we create the difference between a party’s positions on a randomly chosen right-wing issue and a randomly chosen left-wing issue. These randomly matched pairs reflect a party’s policy rhetoric on a right-left scale on two randomly chosen issues. Second, we repeat the previous exercise, but omit economic issues from the set of right- and left-wing issues. Third, we create an indicator based on the issues included in the right-left index that are in the domain of the “Fabric of Society”. These include statements on the issues ‘national way of life,’ ‘morality,’ ‘law and order,’ and

‘social harmony.’ These are, especially in recent years, typical issues of right-wing political campaigns, but not related to attempts to appeal to international markets. The results, reported in Table 4, indicate no systematic and statistically significant relationship between U.S. interest rates and these three dependent variables.

In additional results (not reported), we estimated models with the following features and obtained essentially identical results:

1. Addition of country fixed effects;
2. Collapsing the data by election (with one observation for each election);
3. Limiting the sample to the largest two or three parties in each election to reduce the influence of fringe parties;
4. Dropping high-income OECD countries;
5. Adding control variables for the institutional and political context;
6. Including lagged dependent variables;
7. Clustering standard errors by country
8. Using double-clustered standard errors by party and year.

Table 1: U.S. interest rates and market-friendly rhetoric

	Market-friendly rhetoric		Foreign market-friendly rhetoric		Right-wing rhetoric	
	(1)	(2)	(3)	(4)	(5)	(6)
1-year U.S. interest rate	.388*** (.07)		.472*** (.07)		1.092*** (.21)	
10-year U.S. interest rate		.520*** (.08)		.616*** (.09)		1.263*** (.24)
Log GDP	-.186 (.13)	-.212 (.13)	-.247* (.15)	-.277* (.15)	-1.077** (.50)	-1.152** (.50)
GDP per capita	.021* (.01)	.026** (.01)	.029** (.01)	.034** (.01)	-.013 (.05)	-.004 (.05)
GDP growth	-.142*** (.03)	-.118*** (.03)	-.143*** (.04)	-.115*** (.04)	-.403*** (.11)	-.343*** (.11)
Inflation	-.471** (.21)	-.497** (.21)	-.400* (.24)	-.430* (.24)	1.605* (.86)	1.546* (.86)
US GDP growth	.060 (.08)	.084 (.08)	.025 (.09)	.058 (.08)	-.489** (.24)	-.379* (.23)
US inflation	-.192* (.10)	-.189** (.09)	-.263** (.10)	-.247** (.10)	-1.213*** (.24)	-1.063*** (.22)
Constant	3.522 (3.12)	2.736 (3.12)	4.230 (3.56)	3.289 (3.57)	25.046** (12.12)	23.626* (12.08)

Observations	3,335	3,355	3,335	3,355	3,335	3,355
Countries	57	57	57	57	57	57

Robust standard errors in parentheses, clustered by party.

*** p<0.01, ** p<0.05, * p<0.1

Table 2: Effect of one-standard deviation increase in interest rates

		1-year U.S. interest rate	10-year U.S. interest rate
Market-friendly rhetoric	Absolute (pp)	1.24	1.36
	Relative (%)	260	285
Foreign market- friendly rhetoric	Absolute (pp)	1.51	1.62
	Relative (%)	949	1013
Right-wing rhetoric	Absolute (pp)	3.50	3.31
	Relative (%)	163	154

Table 3: U.S. interest rates and market-friendly rhetoric, Party Fixed Effects

	Market-friendly rhetoric		Foreign market-friendly rhetoric		Right-wing rhetoric	
	(1)	(2)	(3)	(4)	(5)	(6)
1-year U.S. interest rate	0.369*** (0.09)			0.981*** (0.23)	0.415*** (0.10)	
10-year U.S. interest rate		0.585*** (0.12)	0.532*** (0.11)			1.305*** (0.26)
Log GDP	0.787*** (0.28)	0.623** (0.30)	0.538** (0.27)	1.322 (0.97)	0.886*** (0.30)	0.658 (0.94)
GDP per capita	-0.024 (0.02)	-0.004 (0.02)	-0.004 (0.02)	-0.022 (0.06)	-0.026 (0.02)	0.024 (0.06)
GDP growth	-0.134*** (0.05)	-0.097 (0.06)	-0.096** (0.05)	-0.324** (0.13)	-0.138** (0.06)	-0.220 (0.13)
Inflation	-0.132 (0.42)	0.269 (0.50)	-0.225 (0.39)	0.481 (1.11)	0.372 (0.54)	0.290 (1.03)
US GDP growth	0.152** (0.07)	0.144** (0.07)	0.163** (0.07)	0.162 (0.20)	0.127* (0.08)	0.175 (0.19)
US inflation	-0.185 (0.12)	-0.246** (0.11)	-0.187* (0.11)	-0.657*** (0.23)	-0.253** (0.12)	-0.629*** (0.19)
Constant	-20.6*** (6.99)	-19.0*** (7.17)	-16.1** (6.67)	-38.57 (23.82)	-23.67*** (7.37)	-25.9 (23.01)
Party FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,335	3,355	3,335	3,355	3,335	3,355
Countries	57	57	57	57	57	57

Table 4: U.S. interest rates and Placebo Dependent Variables

	Random pairs right-left issues		Random pairs right-left issues, no econ.		Social fabric rhetoric	
	(1)	(2)	(3)	(4)	(5)	(6)
1-year U.S. interest rate	0.063 (0.04)			0.139 (0.10)	0.042 (0.05)	
10-year U.S. interest rate		0.080 (0.05)	0.094** (0.04)			0.124 (0.11)
Log GDP	-0.170** (0.07)	-0.136* (0.08)	-0.171** (0.07)	-0.541*** (0.19)	-0.121 (0.08)	-0.535*** (0.19)
GDP per capita	0.003 (0.01)	-0.001 (0.01)	0.004 (0.01)	0.034* (0.02)	-0.002 (0.01)	0.036** (0.02)
GDP growth	-0.015 (0.02)	-0.059** (0.03)	-0.011 (0.02)	-0.058 (0.05)	-0.066** (0.03)	-0.057 (0.05)
Inflation	0.153 (0.17)	0.150 (0.30)	0.153 (0.17)	0.307 (0.41)	0.149 (0.30)	0.309 (0.41)
US GDP growth	-0.024 (0.06)	0.045 (0.06)	-0.017 (0.05)	-0.361*** (0.10)	0.055 (0.06)	-0.317*** (0.09)
US inflation	-0.086* (0.05)	-0.061 (0.06)	-0.088* (0.05)	-0.467*** (0.10)	-0.040 (0.06)	-0.404*** (0.08)
Constant	4.065** (1.69)	2.26 (1.91)	3.79** (1.69)	23.6*** (4.61)	2.10 (1.91)	23.0*** (4.56)
Observations	3,307	3,320	3,327	3,281	3,300	3,301
Countries	57	57	57	57	57	57

Conditional Results 1: Debt positions, interest rates, and party rhetoric

Our second set of results examines whether the shift in party programs is more pronounced in some countries than others. Following Hypothesis 2, we interact U.S. interest rates with a country's logged short-term external debt position. Economies' whose borrowers are relatively reliant on short term debts with frequent refinancing should be most sensitive to deteriorating credit condition. As a result of that sensitivity, political parties in these countries should be most prone to adjust their statements as credit markets shift.

We obtain data on countries' short-term external debt positions from the Joint External Debt Hub, a cooperation of the Bank of International Settlements, the World Bank, the International Monetary Fund, and the Organization for Economic Cooperation and Development. The data are provided in quarterly format, and we average the data for each country-year. The data are available for years after 1996, which limits the time coverage of our sample substantially. Figure 4 displays the sample distribution of the variable at the country-year level, which suggest substantial variation in the variable across our sample. We emphasize that much of these differences arise across countries, not over time. The across-country variance of the variable is about six times the within-country variance.

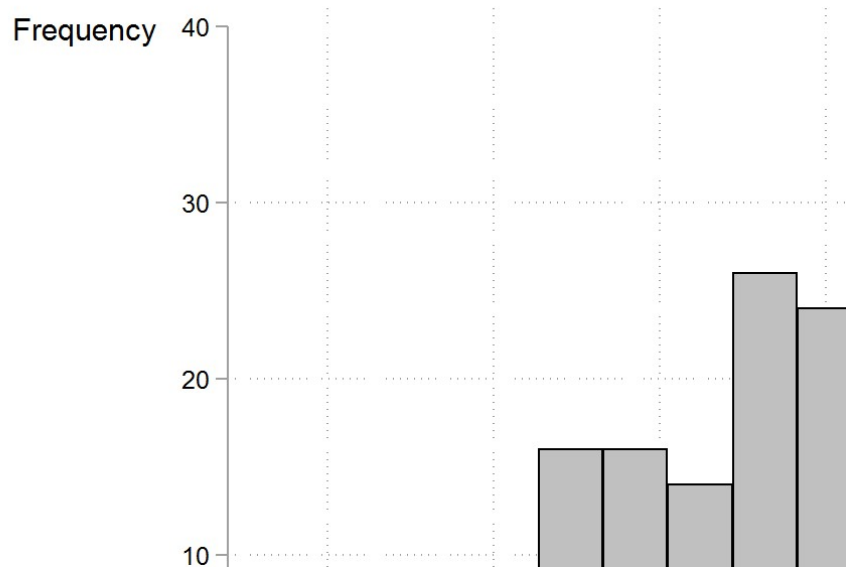


Figure 4: Histogram of log short-term external debt in our sample. Data from the Joint External Debt Hub (downloaded from the World Bank), 1996-2016.

Table 5 provides the results from these models. The data on short-term debt positions limits our sample to 49 countries and years after 1997 (recall that we lag all economic variables). While this period includes substantial swings in interest rates, it reduces the variance in our independent variable considerably, which is in part reflected in the significance of our coefficient estimates. Nonetheless, we obtain statistically significant, positive coefficients on the interaction between short-term debt and U.S. interest rates in most of our models, suggesting that the effects of U.S. interest rates are more pronounced in countries with large amounts of short-term external debt –for whom maintaining access to foreign finance is most pressing – than in countries with smaller amounts of short-term external debt.

Figure 5 displays the marginal effect of a one standard deviation increase in U.S. interest rates for all six models. The top row presents the results for the one-year interest rate, the bottom row for the ten-year interest rate. Each column corresponds to one of the three

dependent variables. The effect is close to zero for those observations with the least amount of short-term external debt; it increases substantially in size as debt loads increase. We obtain similar results with a more flexible kernel estimator, which does not impose a linear functional form (Hainmueller et al, 2019).

Table 5: U.S. interest rates, market-friendly rhetoric and short term debt loads

	Market-friendly rhetoric		Foreign market-friendly rhetoric		Right-wing rhetoric	
	(1)	(2)	(3)	(4)	(5)	(6)
1-year U.S. interest rate	-.722 (.49)		-.518 (.57)		-1.606 (1.91)	
x short-term debt	.051** (.02)		.047* (.03)		.148* (.09)	
10-year U.S. interest rate		-1.509** (.73)		-1.225 (.84)		-1.910 (2.97)
x short-term debt		.103*** (.03)		.098** (.04)		.188 (.13)
Log GDP	-.361* (.22)	-.350 (.22)	-.377 (.26)	-.368 (.26)	-.660 (.79)	-.676 (.80)
GDP per capita	.020 (.01)	.026* (.01)	.026 (.02)	.032** (.02)	.011 (.05)	.018 (.06)
GDP growth	-.170*** (.05)	-.151*** (.05)	-.191*** (.07)	-.168** (.08)	-.584*** (.16)	-.524*** (.17)
Inflation	-.384 (11.66)	-.645 (11.65)	-.983 (13.29)	-1.615 (13.30)	95.3*** (35.62)	95.8*** (36.40)
Short-term debt	-.101 (.16)	-.376* (.21)	-.092 (.19)	-.356 (.25)	-1.103 (.71)	-1.448 (.93)
US GDP growth	.012 (.11)	.028 (.10)	.011 (.13)	.037 (.12)	-.394 (.36)	-.146 (.34)
US inflation	-.115 (.17)	-.178 (.17)	-.161 (.23)	-.224 (.22)	-1.273** (.59)	-1.032* (.57)
Constant	1.1** (3.93)	13.8*** (4.70)	9.34** (4.53)	12.4** (5.48)	37.0*** (13.35)	39.1** (16.69)
Observations	1,599	1,599	1,599	1,599	1,599	1,599
Countries	49	49	49	49	49	49

These results are entirely driven by cross-country differences in short-term debt loads. This is perhaps not surprising. Given the short time period in this sample and that a country's ability to rely on avoid reliance on short-term debt depends on structural conditions (such as market size and institutional quality) that hardly change in the short term, we would not expect to see much meaningful variance over time. That said, these cross-country differences echo a long-standing emphasis in the literature on international finance and the differential effects of global financial conditions across countries. Countries that have to rely on large amounts of short-term debt to finance their budgets are more sensitive to the volatility of financial markets, and this appears to feed through to electoral campaigns and party statements in those campaigns.

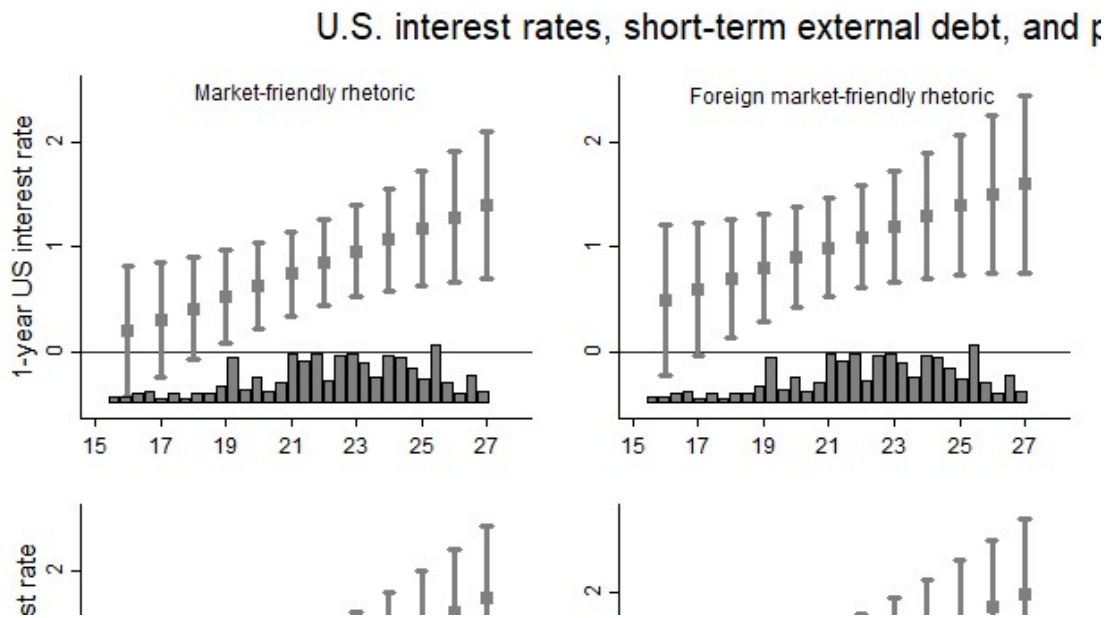


Figure 5: Marginal effect of a one standard deviation increase in 1-year U.S. interest rate (top row) and 10-year U.S. interest rate (bottom row) on market-friendly rhetoric (column 1), foreign market-friendly rhetoric (column 2), and right-wing rhetoric (column 3), as a function of a country's short-term external debt. Coefficients and 95% confidence intervals. Histograms display the sample distribution of short-term external debt.

Conditional Results 3: The prominence of US banking in global finance

Our long sample period allows us to evaluate an additional implication of our theory note in Hypothesis 3. The impact of US interest rates on party manifestos should increase with the prominence of US banking in the international financial system. Table 6 provides evidence for this corollary, using data on the international investment position of the U.S. in banking and finance from the Bureau of Economic Analysis (the category definitions changed in 1999; we aligned the time series by removing holdings and real estate investments from the series before 1999, using the detailed account data). The role of US banking increases over time, as expected, and increases in almost every year; even on the log scale, the increase is nearly linear until the early 2000s.¹⁷

As Table 6 shows, the effect of both short- and long-term US interest rates increases with the increasingly prominent role of US finance in the global financial system. The interaction term is positive and statistically significant, indicating that the response of party manifestos to US interest rates depends (statistically significantly) on the prominence of US finance. Figure 6 displays the substantive size of these effects. The top row shows results for a one-standard deviation increase in short-term US interest rates, the bottom row for a one-standard deviation increase in long-term US interest rates. The columns present the effects for market-friendly rhetoric (column 1), foreign market-friendly rhetoric (column 2), and right-wing rhetoric (column 3). The figure shows that especially for long-term US interest rates, the effect increases considerably in the global investment position of the US.

¹⁷ This is also reflected in the linear correlation coefficient with “year”, which is over .9.

Table 6: U.S. Interest Rates and Global U.S. Investment Position

	Market-friendly rhetoric		Foreign market-friendly rhetoric		Right-wing rhetoric	
	(1)	(2)	(3)	(4)	(5)	(6)
1-year U.S. interest rate	-1.044*** (0.37)		-1.418*** (0.40)		-4.575*** (1.19)	
x US investment	0.084*** (0.03)		0.116*** (0.03)		0.439*** (0.09)	
10-year U.S. interest rate		-0.621 (0.42)		-1.075** (0.46)		-5.003*** (1.39)
x US investment		0.096*** (0.03)		0.135*** (0.03)		0.517*** (0.10)
Log GDP	-0.253** (0.11)	-0.238** (0.11)	-0.328*** (0.12)	-0.311*** (0.12)	-1.370*** (0.42)	-1.356*** (0.43)
GDP per capita	0.025** (0.01)	0.027** (0.01)	0.033** (0.01)	0.036** (0.01)	-0.033 (0.05)	-0.029 (0.05)
GDP growth	-0.089*** (0.03)	-0.089*** (0.03)	-0.092** (0.05)	-0.091* (0.05)	-0.450*** (0.11)	-0.403*** (0.11)
Inflation	-0.640*** (0.21)	-0.542*** (0.21)	-0.656*** (0.25)	-0.555** (0.25)	0.175 (0.88)	0.267 (0.87)
US investment	-1.493*** (0.32)	-0.713 (0.44)	-1.808*** (0.34)	-1.115** (0.47)	-3.379*** (1.03)	-3.629** (1.48)
US GDP growth	0.102 (0.08)	0.098 (0.08)	0.060 (0.09)	0.061 (0.09)	-0.570** (0.27)	-0.425 (0.26)
US inflation	0.017 (0.14)	-0.210 (0.14)	0.043 (0.16)	-0.180 (0.16)	-1.127*** (0.42)	-1.093*** (0.41)
Constant	24.99*** (5.04)	12.34* (6.89)	30.08*** (5.54)	18.38** (7.58)	78.29*** (17.49)	76.446*** (23.89)
Observations	2,646	2,646	2,646	2,646	2,646	2,646
R-squared	0.046	0.049	0.051	0.054	0.051	0.049

U.S. interest rates, U.S. investment position, and

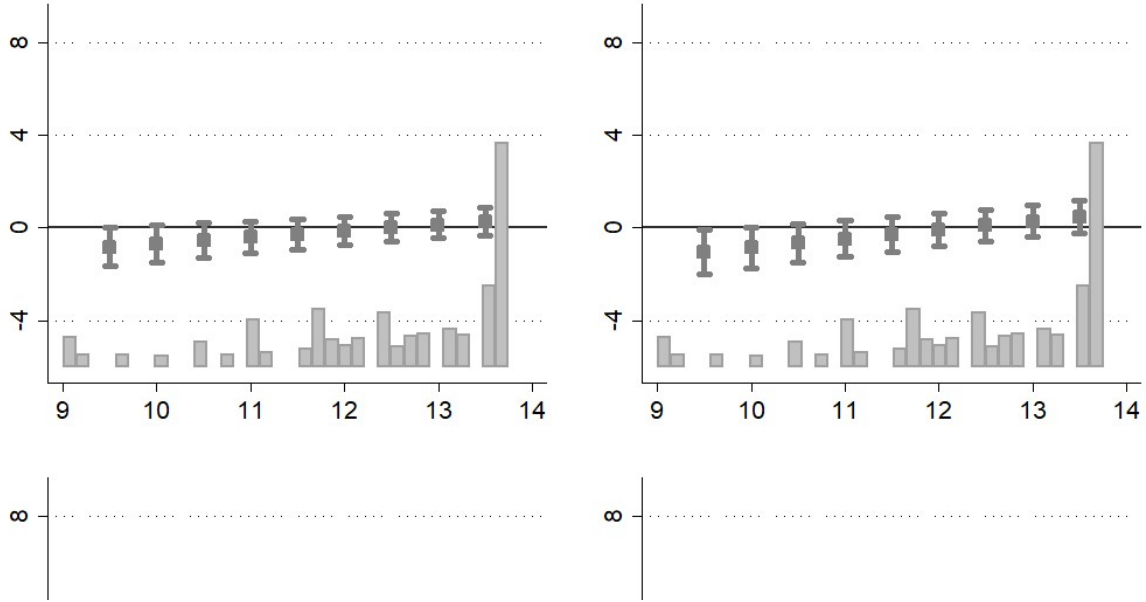


Figure 4: Marginal effect of a one standard deviation increase in 1-year U.S. interest rate (top row) and 10-year U.S. interest rate (bottom row) on market-friendly rhetoric (column 1), foreign market-friendly rhetoric (column 2), and right-wing rhetoric (column 3), as a function of global US investment. Coefficients and 95% confidence intervals. Histograms display the sample distribution of global US investment.

Section V: Conclusions

We argued that global credit cycles shape access to capital, which in turn shapes the relationship between politics and international markets. Politics should in general become more market-friendly when credit markets are tight and become more indulgent of anti-market sentiments when looser access to credit diminishes the need to demonstrate credit-worthiness to financial markets. Political rhetoric should, we argue, follow this path. We expect a shift towards more market-friendly positions when U.S. monetary policy tightens global access to credit and especially large shift where governments must frequently reenter debt markets due to a reliance on short-term maturity debt. Conversely, anti-market rhetoric becomes more

feasible when global credit conditions allow for that. We have provided empirical evidence to suggest that both of these hypotheses are well supported by the data.

Going forward we would like to incorporate the following:

1. Alternative measures of countries' sensitivities to U.S. interest rate swings, in particular bilateral dependence on U.S. finance.
2. More discussion of U.S. interest rates' exogeneity.
3. More discussion of the implications of having OECD members in the sample.
4. More discussion of whether in times of tight credit policy platforms are primarily a form of communication to credit markets, or to a voting population that wants to elect parties that will do that communication through policies.
5. Other conditional relationships, including partisanship, incumbency, market size.
6. Discuss how interest rates shape the political environment, facilitating (global) market-friendly/neo-liberal policy initiatives by domestic and international actors.
7. Account for the global emergence of populist parties.

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