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EVIDENCE FROM 78 DEMOCRATIC COUNTRIES, 1975 – 2006

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ABSTRACT

I investigate whether timing of the elections impact globalization process or not in democratic countries across the globe. In other words, do elections slowdown globalization process? The theoretical underpinning is that, globalization process lead to economic and social hardships in short run but benefit the economy in the long run. The motto behind slowing down globalization process before elections is that it leads to polarization of voters and thus negatively affects the incumbent government. I make use of Axel Dreher's comprehensive globalization index as proxy for overall globalization process; economic globalization index for economic globalization policies and restrictions index as proxy for removal of trade and financial restrictions. I then construct '*instrumental electoral cycle*' to capture the scheduled and midterm election cycle.

Using cross-sectional time series data for 78 democratic countries for the period 1975 – 2006, I find that scheduled elections are associated with slow down in all the three forms of globalization process, whereas midterm elections are not. Replacing all three Dreher's indices with our modified indices does not alter the results. I also find that slow down in globalization process is responsive to the propinquity to a scheduled election year. Meaning, as incumbent government nears the scheduled elections, globalization process keeps slowing down, while this is exactly opposite during the early years of incumbent government in office. These results suggest that elections generate "electoral globalization cycle" in democratic countries.

**Keywords:** Globalization; Election cycles

**JEL Codes:** D72

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## 1. Introduction

In electoral competition framework, there are different models which talk about the effect of elections on government behavior. The first such model, 'political business cycle' was formulated by Nordhuas (1975), Lindbeck (1976) and Tufte (1978). They argue that politicians manipulate the economic policies during the election period, by increasing the spending to boost economic growth on one hand and on the other hand, the incumbent government aims to keep the unemployment under control, leading to business cycles. While, Rogoff & Sibert (1988) and Rogoff (1990) advocates 'budget cycles' by increasing the spending on consumption and reducing taxes before the elections to highlight that the incumbent is competent enough to deliver public services. Recently, Khemani (2004) developed the 'career concern' model in which she argues that pressure of elections will be higher on politicians to provide better public services and increase developmental spending and reducing non-developmental expenditure, highlighting that fiscal manipulation would be low and selective on some of the taxes and spendings which directly effect the people. All these studies deal with government policies with specific reference to fiscal policy. However, instead of looking at only fiscal policies, I probe the effect of general elections on globalization process in democratic economies. I undertake this investigation for two specific reasons: one, since the advent of neoliberal policies many economies saw structural changes which was resultant due to movement from 'inward looking polices' towards 'outward looking or liberalized policies'. These policies are driven by globalization process, which inturn affects basic government policies like fiscal and monetary policies. Therefore, one can assume globalization process as a derivative of government's various economic policies. Two, the evidence on the effects of globalization process on socioeconomic conditions is mixed and hence its implications on elections are unknown. Thus, this study bridges this gap and addresses several questions: Does incumbent government manipulate the globalization process and slow down its pace just before the elections to avoid the defeat? Whether there exists 'electoral globalization cycle'? Do midterm elections affect globalization process? And what are the policy implications that we can derive from the results?

In its most basic form, proponents of economic voting theory argues that voters who are most hurt by the government policies which lead to strained economic conditions are more likely to punish the incumbent governments in the elections (Burdekin, 1988; Lewis-Beck, 1991; Gleisner, R. F, 1992; Çarko lu, 1997; Wilkin et al. 1997; Fielding, 1998 & 2000; Lewis-Beck & Paldam, 2000; Chappell & Veiga, 2000; Lewis-Beck & Stegmaier, 2000; Youde, 2005; Nordhaus, 2006; Akarca & Tansel, 2006a & b; Duch & Stevenson, 2006; Mitchell & Willett, 2006 and Veiga & Veiga, 2006). Usually, voters relay more on the macroeconomic conditions of the country while voting (Lewis-Beck, 1988), though certain elections are found to be issue based elections. But in majority of the cases, it is the economic situation on the ground which matters the most and is the driving factor for the voters (Alvarez et al., 2000). These macroeconomic factors are inturn determined by the globalization process initiated by the incumbent governments. There is empirical evidence to show that neoliberal policies lead to short term economic and social hardships, but provide economic benefits in the long run (Wolf, 1999; Staehr, 2003; Vadlamannati, 2008). Because the benefits of such process tend to be isolated, but

the costs associated with it are strenuous in short run, those sections of the society who are worst hit by these policies would like to replace the incumbent government with those who are more likely to adapt policies which do not hurt the people. This forces the incumbent government to slowdown the globalization process as and when they near the scheduled election year. This would be the only option available with the government as it cannot completely reverse these policies which were adopted say a decade ago as reversal of these policies would prove very costly for the country. Hence, globalization process would be accelerated once the incumbent government gets back to the office post elections, thus creating 'electoral globalization cycles'. However, this is exactly opposite in the case of midterm elections. This is because the timing of midterm elections (which occur anytime after a previous election) is unanticipated and hence, it does not provide incumbent government the scope to manipulate and slowdown the globalization process.

## **2. Election Cycles & Globalization Process: Theoretical Underpinnings**

The literature presents conflicting findings on the implications of overall globalization process on socioeconomic development. The liberal theorists argue that countries which are highly engaged in globalization process are likely to experience higher economic growth, greater affluence, more democracy, and increasingly peaceful conditions in the home country and elsewhere (Flanagan & Fogelman, 1971; Weede, 1995; Jacobsen, 1996). It is believed that globalization process is most likely to improving quality of life. It help promote economic development, providing trade and investment opportunities creating much needed employment generation and reduce income inequality and poverty thereby leading to decline in social unrest and economic insecurity. Thus, countries with higher levels of globalization process should suffer lesser degree of socioeconomic problems and have greater development. Higher globalization process also serves in attaining development goals for developing economies.

On the contrary, skeptics contend that higher levels of globalization process tend to generate greater economic and social inequalities. This leads to greater economic insecurity and social unrest in the society. Sometimes it also paves way for the risk of political instability and outbreak of riots, agitations, protests, conflicts and disturbances thereby (Boswell & Dixon, 1990; Barbieri, 1996; Rodrik, 1997, Rodrik, 1998; Rodriguez & Rodrik, 2000, Blinder, 2006; Summers, 2006; Krugman, 2007).

Taking both these perspectives into consideration evolves another set of group which take middle path arguing that neoliberal policies brings both good and harm. Their premise is largely based on the J-Curve model developed by Przeworski (1993) who advocated that neoliberal policies though beneficial for the country and society in the long run, lead to economic and social hardships in the immediate short run. This theory argues that whatever might be the long-term implications of socioeconomic growth and high development, the immediate short term effect of globalization process is the structural adjustments in the economy which generates substantial economic and social costs in terms for increase in unemployment and inflation (Marer & Zecchini 1991), resource misallocation (Roland 1994), volatility in income distribution (Milanovic 1995), declining output (Kolodko 1999), and poor socioeconomic conditions (DeMelo, Denizer,

& Gelb 1996). With specific reference to transition economies, there are prominent studies like Wolf (1999) finds a significant J-curve relationship between neoliberal policies and economic growth and development. Similar such findings were apparent in the study related to economic reforms and its impact on government repression by Vadlamannati & Soysa (2008). With specific focus on India, Vadlamannati (2008) finds similar such J-curve relationship between economic reforms and globalization with poverty levels, suggesting that economic globalization and internal reforms are associated with economic and social hardships in the short run, but are beneficial in long run.

To control these economic and social costs in short run, sometimes the government resorts to policies which can be detrimental to the sizeable sections of the society. For example, to curtail high inflationary pressures, on one hand, the government hikes tax rates and on the other hand it can also increase interest rates. Similarly, in the process of making the public sector efficient and improve the savings of public sector, government undertakes massive restructuring policies like privatization program which many times results in huge layoffs. To contain higher levels of fiscal deficits, the governments due to their coalition political compulsions resort is cutting the social sector development expenditure. Such hard policies intended for long-term benefits make a sizeable fraction of the population disaffected (Mygind 1999). Thus, the incumbent governments who implement these neoliberal policies face severe pressures from those groups and sections in the society which are widely affected by these neoliberal economic policies. This creates short-run losers from globalization process as the major opposers of government's neoliberal economic policies. Their main argument is that they do not believe the idea of the government which promises future gains and in return expecting political support to carry forward the neoliberal economic policies. Further, they believe that government often fails to keep the commitment which is made to the people during the previous elections that they would continue with the such polices until it yields benefits to the society in the long run (Slantchev, 2005). Moreover, Rodrik (1994) argues that the consequences of globalization often involve the redistribution of income among different groups. If the efficiency gains from the neoliberal policies is not substantial and income is not redistributed properly, this leads to either evade or slowing down of the globalization process. Precisely this is the reason why whenever the new form of polices are designed and adopted, there are wide spread agitations to resist making substantial policy changes which inturn affect the vast sections of the population. This sometimes leads to angry mob protests, conflicts, strikes and lockouts and riots forcing the governments to roll back or reverse the policy decisions (Fields, 2003). This also means that governments that are vulnerable to the reactions of certain sections of the society, which constitute significant portion, are less likely to carry forward the globalization process at a rapid pace and might engage in piece meal globalization process. This is exactly echoed by the study of Dewatripont & Roland (1992) who points out that to avoid opposition to implement tougher policies, it is more feasible for the governments to implement neoliberal policies at slow pace in order to avoid a status quo situation or confront with a situation where reversal would be the only option.

According to the electoral competition theories the opportunistic politicians resort to manipulate economic policies during election times for political gain. Thus, keeping the

country's long term economic benefits on stake by manipulating the economic policies to reduce their short term political losses (avoiding losing elections). Infact the 'political business cycle' theory is propounded by Nordhaus (1975), Lindbeck (1976) and Tufte (1978) argue that usually the incumbent governments keep growth high and unemployment low just before elections. To gain from these manipulations, the incumbent governments bank on uninformed voters who can provide them short term benefits. This model finds support in many studies in literature specially related developing countries. Studying the case of eight Latin American countries, Ames (1987) finds evidence of increased public spending during election years. Schuknecht (1996) examines fiscal policies in a sample of 35 developing countries from 1970 to 1992. He finds that while there is no election effect on real output, there are election-related expansions and reductions of the fiscal deficit by almost 0.7% of GDP. In an another study by Schuknecht (1999) finds for developing countries, that governments resort to expansionary fiscal policies to improve their chances of re-election. Moyo (1999) finds evidence of electoral cycles in public savings for a sample which includes both developed and developing countries. The study by Shi & Svensson (2000) examines fiscal policy electoral cycles for both developed and developing countries. They find evidence of political business cycles in government consumption and the fiscal deficit in a Rogoff-style model, with cycles of greater magnitude in developing countries. Testing the same, Block (2002) presents cross-country evidence of political business cycles for African countries. Using five monetary and fiscal instruments, his findings are consistent with the predictions of rational opportunistic political business cycle theory. In a regional study on India by Chaudhuri & Dasgupta (2005) finds that there is an increase in current expenditure and decline in developmental spending during the election years<sup>1</sup>. Contradicting these arguments, Khemani (2004) developed new model of 'career concerns' in which she argues that during the election years, there is a significant improvement in public services and political manipulation of all kinds of polices do not find support. Only development spending (capital expenditure) tends to increase, while nondevelopment spending (current expenditure) reduces. Nevertheless, these models demonstrate the manipulation of incumbent governments to persuade voters just before the election period and thereby generate electoral cycles.

Taking into account former discussion on socioeconomic implications of globalization process and later debate on electoral cycles, I believe that a government that is responsive to its voters is more likely to slowdown the globalization process as the government nears scheduled elections. But the same responsive government once takes over the office soon after the elections, is more likely to accelerate the globalization process. This brings us to our first two propositions:

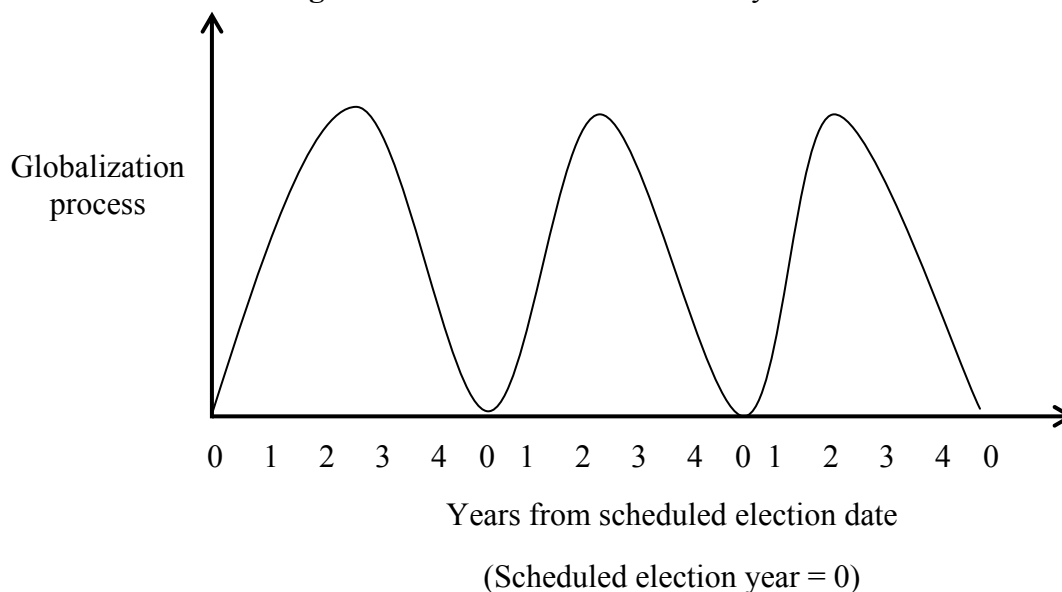
**Hypothesis 1 (H1): Slowdown in globalization process is associated with scheduled election years.**

**Hypothesis 2 (H2): Slowdown in globalization process is greater as incumbent government nears scheduled election year.**

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<sup>1</sup> There are also studies which have found contradicting results. See: Golden Poterba (1980); Alesina & Roubini (1992); Besley & Case (1995); Reid (1998).

**Figure 1: 'Electoral Globalization Cycle'**



Based on the first two hypotheses, I assume that there is an 'electoral globalization cycle' which basically means slow down in globalization process is responsive to the propinquity to a scheduled election year. Meaning, as incumbent government nears the scheduled elections (election year being 0 in figure 1), globalization process keeps slowing down, while this is exactly opposite during the early years of incumbent government in office.

Here it is very important to make a distinction between scheduled elections and midterm elections. The scheduled elections are those which are constituted by the Constitutions of respective countries and occur once in every four and/or three years. Whereas, midterm elections are those that occur one, two, three or four years after the previous election (either scheduled or midterm), that is, before the completion of the full term of the present elected government in office. Therefore, this distinction between the two becomes even more important to globalization policy choices because the timing of midterm elections is usually sudden and unanticipated. So it is not reasonable to expect incumbent governments to slowdown globalization process to influence election outcomes. This leads to our final proposition:

**Hypothesis 3 (H3): Slowdown in globalization process is NOT associated with midterm elections because of its unanticipated and uncertain timing.**

Each of these hypotheses is examined in the empirical analysis which would follow this section. The rest of the paper is organized as follows: Section 3 deals with research design with specific focus on measuring globalization process, creating instrumental electoral cycles for midterm elections and distance from scheduled election year, followed by data sources and identifying the empirical strategy to be employed. Section 4 presents discussion on the results derived from our empirical analysis. Final section concludes the study and highlights the implications of these results.

### 3. Research Design

#### 3.1. Measuring Globalization: Why Dreher's Index?

In all the studies in literature, globalization is measured only partially with one or a few economic variables like the trade ratio, direct foreign investment, capital flows, tariff rates, trade restrictions, monopolization of exports, black market premiums and country specific globalization dummies etc. Such measures are generally known as openness of the economy. Subsequently more comprehensive measures of globalization were developed with the weighted average or principal components methods. The well known Sachs and Warner (1995) binary index of openness is based on the weighted averages of some economic variables. Others, while accepting economic variables are important to measure globalization, argued that globalization has also political and social dimensions. The well known Freedom House discrete index of political freedom is based on a few such variables from the political and social sectors. The Freedom House index and similar measures are often used, along with a few other crucial economic variables, as the conditioning variables.<sup>2</sup> In practice it is hard to maintain a distinction between openness which is proxied with mostly economic variables and globalization measured with variables from the economic, social and political sectors. This remains the major criticism of the early empirical works on globalization. Majority of them have used single dimension indicators like trade openness or both trade and investments (FDI in particular) as alternative measure, which is not justifiable.

Also, I would like to justify as to why only Dreher's globalization index is selected over others. Infact Dreher's globalization index is not first such attempt to quantify globalization process. The well known Lockwood & Redoano (2005) discrete index of globalization from 1980 – 2004, is also based on such economic, political and social variables. Similarly, Kearney, Andersen & Herbertsson (2005) using trade, finance and other political variables have also developed such indices for 62 countries starting from 2000, to determine the annual rankings of countries on the basis of the Kearney index. Using similar such variables, the Andersen and Herbertsson index is developed for 23 OECD countries for the period 1979 to 2000. Though these indices are well constructed, I have questions mainly related to how economic globalization was measured.

I do not take into consideration the indices mentioned above for various obvious reasons. First, Lockwood & Redoano (2005) globalization index covers only trade and other economic variables ignoring some of the most important facets of economic globalization like: quantifying tariffs, restrictions and quotas. Thus, their index without these important measures becomes just another simple proxy like trade openness. Second, with respect to Kearny index, as highlighted by Rao et al. (2008), their weighting scheme is somewhat

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<sup>2</sup> Using mainly economic variables are: Edwards (1998), Dollar & Kraay (2004). Crafts (2000), Bordo & Meissner (2006) & Rincon (2007) found that globalization positively affects growth. Chanda (2001) used capital account openness as proxy for globalization to find that globalization does not help developing countries in growth. Alesina et al. (1994) find the opposite. Using FDI as proxy for globalization, Zhang (2001), Campos & Kinoshit (2002), Alfaro (2003), Sethi & Patnaik (2004), Chowdary & Mavrotas (2006), Hansen & Rand (2006) & Hay (2006) find that globalization has positive effects on growth.



arbitrary in that they do not adjust for the size of the country on the basis of its population. Third, it is not possible to use both Kearney, Andersen & Herbertsson (2005) and Lockwood & Redoano (2005) indices in time series regressions because of the absence of time series data.

We select Dreher's indices for the obvious reasons mentioned above. First, his comprehensive globalization index is used as proxy for overall globalization process because, it also captures political and social dimensions, which I believe are important and are missing in single or bi-dimensional variables. Second, regarding economic globalization policies, we make use of his economic globalization index and with respect to removal of trade and financial restrictions, which is an important component of globalization, we use his restrictions index. We select these indices simply because it overcomes all the three disadvantages highlighted earlier. The Dreher's economic globalization index combines many economic indicators along with 'trade and investment restrictions' like: hidden import barriers, mean tariff rates, taxes on international trade (% current revenue) and capital account restrictions, which no other indices captures as comprehensively as it does. Of course, the economic indicators in this index includes 'actual flows', which captures: income (% GDP); volume of trade (% GDP); FDI inflows and inflows stock (%GDP) and Portfolio investments (% GDP). Third and other advantage of Dreher's index is methodological as it uses widely available technique of the principal components method and Dreher index is most suitable for time series study as it dates back to 1970.

Thus, in the light of these observations, Dreher (2006) is a welcome contribution because his comprehensive measures of globalization will help to decrease many disagreements on the measurement issue. The Dreher index is formulated for 123 countries from 1970 to 2005 and recently updated. His overall globalization index includes three sub indices from the Economic Globalization, Social Globalization and Political Globalization; see Section 2 in the study of Dreher (2006) for detailed discussion of this<sup>3</sup>.

### 3. 2. Alternative Measures of Globalization: 'Modified' Indices

All the Dreher's indices related to globalization process are measured on 0 – 100 scale, 0 meaning no or low particular globalization process, while a score of 100 means full globalization. Sometimes, there can be problems while using this index as dependent variable. Since the these indices coefficients are bounded between 1 and 100, using Ordinary Least Squares regression might sometimes be problematic. This is because, often OLS assumes that the dependent variable to be unbounded. Thus, to counter this problem we follow Reuveny & Li (2003) method, which is a usual practice to transform the bounded variable into unbounded indicator. I transform all the three indices into unbounded measure by using the following formula:

$$\text{Unbounded Globalization Index} = \frac{\text{Globalization Index}}{100 - \text{Globalization Index}}$$

<sup>3</sup> These indices can be downloaded from <http://globalization.kof.ethz.ch/>

$$\text{Unbounded Economic Globalization Index} = \frac{\text{Economic Globalization Index}}{100 - \text{Economic Globalization Index}}$$

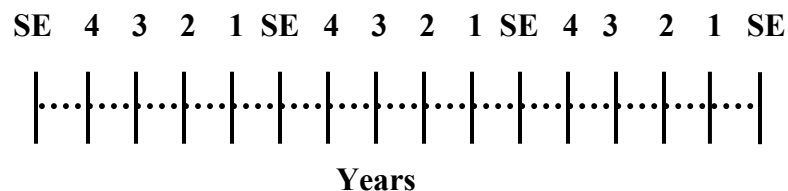
$$\text{Unbounded Restrictions Index} = \frac{\text{Restrictions Index}}{100 - \text{Restrictions Index}}$$

I however, make use of these unbounded transformed indices to assess the robustness of the main results.

### 3. 3. Constructing Instrumental Electoral Cycles

The need for constructing instrumental electoral cycle arises from the question whether timing of elections are endogenous to neoliberal policies carried by the respective incumbent governments. Theoretically speaking, this may not be true because in the scheduled elections are fixed for four to three year basis. However, over the period of time, especially post 1990s we witnessed quite a few midterm general elections. These occur due to various reasons which include drifting away the Members from ruling alliance, political instability because the governments sometimes do not possess the required numbers to prove its majority in the parliaments, shifting of political alignments within the alliance group and so on. Infact in our sample from 1975 to 2006, out of total 605 general elections, 91 happens to be midterm elections and rests are scheduled elections. This means around 23% of the total general elections in our sample period are marked by midterm elections. The exact timing of these midterm elections is sudden and unanticipated. Since these events are unexpected, it might not lead to slow down in globalization process, as the incumbent government would not have ample time to plan and react to these midterm elections. One possible solution to address this problem is to distinguish between the effects of scheduled and midterm elections on the outcome of interest – all the three indices of globalization. To this end, I employ the technique of Khemani (2004) in constructing what is called as “*instrumental electoral cycle*” for both scheduled and midterm elections.

**Figure 1:** Scheduled election cycle

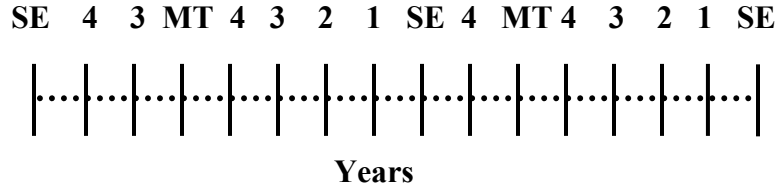


Note: SE= Scheduled Elections

The typical scheduled election cycle is the one which follows a 4-year cycle and is renewed after every schedule election year, that is, it again begins with 4, 3, 2 and 1. The figure 1 best captures coding of this cycle. In some countries, the scheduled elections

occur once in four years. In such cases, the coding would begin from 3, 2 and 1. To capture the scheduled elections effect, we give the value of 1 for scheduled elections year and 0 otherwise. One may note that we do not give the same dummy coding to midterm elections because we capture its effect in separate cycle called ‘midterm electoral cycle’.

**Figure 2:** Midterm election cycle



Note: SE= Schedule Elections; MT= Midterm Elections

The midterm election cycle also follows a 4-year cycle, but it is also renewed after every midterm election. Many times, the scheduled elections coincide with election years in midterm election cycle. The midterm election years are treated to be 4, 3, 2, 1 year before a scheduled election year. The year after any midterm election is again coded as 4 years before a scheduled election followed by 3, 2 and 1. The timeline of the midterm election cycle is captured in figure 2. Based on these discussions, we formulate the empirical model to estimate the direct effect of the electoral cycle on all three forms of globalization polices of the incumbent government:

$$GLOP_{it} = \alpha_1 + \sum_{F=1}^4 \Omega_2 SEC^F_{it} + \sum_{F=1}^4 \Omega_3 MTC^F_{it} + \Omega_4 CV_{it} + \zeta_{it} \quad \dots \dots \dots (1)$$

Where: **GLOP** = globalization process proxied by overall globalization index, economic globalization index and restrictions index; **i** = country; **t** = time; **α** = Intercept for the equation; **Ω** = regression coefficients for variable “n”; **ζ** = error term for country at time “t”. The hypothesis variables presented here are: **SEC** = Scheduled elections which is coded 1 for scheduled election years and 0 otherwise; **MTC** = Midterm election cycle and **F** = 1, 2, 3 & 4 for respective electoral cycles. This means for example: **MTC<sup>0</sup><sub>t</sub>** is 1 if t is a scheduled election year in respective country; **MTC<sup>1</sup><sub>t</sub>** is 1 if t is one year before a scheduled election year; **MTC<sup>2</sup><sub>t</sub>** is 2 if t is two years before a scheduled election year; **MTC<sup>3</sup><sub>t</sub>** is 3 if t is three years before a scheduled election year and **MTC<sup>4</sup><sub>t</sub>** is 4 if t is three years before a scheduled election year in the respective country. The economies vary in size, political climate and the levels of socioeconomic developmental aspects are different. To capture these effects, we include control variables in the same equation: Control Variables (**CV<sub>t</sub>**). The description of these variables is given in the next section. This model allows to tests key hypotheses mentioned earlier: H1; H2 & H3.

To capture the effects of distance from election years on all three forms of globalization, we developed ‘distance from election cycle year dummies’. We formulate “electoral cycle” which includes four dummy variables namely: 4-years before elections variables which take the value of 1 in the 4<sup>th</sup> year before every schedule election year and 0

otherwise. The second dummy includes 3-years before elections variable which has the value 1 in the 3<sup>rd</sup> year before every schedule election year and 0 otherwise. The third dummy variable is 2-years before elections variable include the value of 1 in the 2<sup>nd</sup> year before every schedule election year and 0 otherwise. Finally, 1-year before elections variable takes the value of 1 in the 1<sup>st</sup> year before every schedule election year and 0 otherwise. These variables allow measuring how the temporal distance from a scheduled election year affects globalization process vis-à-vis an election year. The model is specified as follows:

$$\text{GLOP}_{it} = \lambda_1 + \sum_{T=1}^4 \beta_2 \text{SEC}_{it}^T + \sum_{T=1}^4 \beta_3 \text{MTC}_{it}^T + \beta_4 \text{CV}_{it} + \beta_5 \text{D1}_{it} + \beta_6 \text{D2}_{it} + \beta_7 \text{D3}_{it} + \beta_8 \text{D4}_{it} + \upsilon_{it} \quad (2)$$

Where, **D1, 2, 3, 4...** are the distance from election year dummies. The empirical analysis covers 78 countries which included both developing and developed economies for the period 1975 to 2006. We estimate all models using year dummies to estimate any effects of trending data. However, the pooled time-series cross-sectional (TCSC) data may exhibit Heteroskedasticity and serial correlation problems. While these problems do not bias the estimated coefficients as pooled regression analysis in itself is a more robust method for large sample consisting of cross section and time series data. However, they often tend to cause biased standard errors for coefficients, producing invalid statistical inferences. To deal with these problems, we estimated for all the models the Huber-White robust standard errors clustered over countries. These estimated standard errors are robust to both Heteroskedasticity and to a general type of serial correlation within the cross-section unit (Rogers, 1993 and Williams, 2000).

### 3. 4. Control Variables

Here we also include analysis of important control variables which determine globalization process. To this end, we introduce set of independent variables namely, macroeconomic, political and institutional factors. Controlling for these factors, we test whether electoral cycles (scheduled and midterm) form important source of constraints on globalization process.

#### 3. 4. i. Macroeconomic Factors

##### a. Economic Development

Neoliberal policies are easier to implement in the countries which are wealthier (Manzetti 1999). This is because high income countries provide the cushion to the governments to offset the social and economic costs associated with such policies. Thus, globalization can be enhanced in the higher income countries (Biglaiser & Danis 2002). To capture the effect on high income, I take into account percapita GDP. Thus, it is expected that high per capita GDP is positively related to overall globalization process. The data for percapita GDP are in US dollars 2000 constant and are logged and captured from World Development Indicators (2006).

## **b. Economic Growth**

We also capture the effect on economic growth to proxy for relative size of the economy. Higher the economic growth, greater the chances to carry forward the globalization policies as high growth coupled with increase in percapita GDP should translate into better standard of living of the poor. To capture this effect, we include GDP growth rate as proxy for relative size of the economy. The data for GDP growth rate comes from the World Development Indicators (2006).

### **3. 4. ii. Political & Institutional Factors**

#### **d. Political Regime**

Effect of political regime on globalization process is the most contentious topic in political economy. Conventional wisdom posits that autocracies are better off to democratic setup in implementing neoliberal policies of their choice. Often the case studies of India and China are cited as apt examples. There are infact studies by Haggard & Kaufman (1995) and Weyland (1998) which show that globalization policies can be easily implemented in authoritarian rule as the state is often insensitive towards general public sentiments and opinions. Also, the authoritative regimes are not under constant pressure to seek the public opinion in the form of elections once in five years. On the other hand, it is believed that the implementation of neoliberal policies is very slow in democratic regimes. This is because it has various compulsions like facing public anger against a policy decision; coalition compulsions; differences within the ruling party alliances and so on. But having said this, there are vast numbers of studies like: Giavazzi & Tabellini (2004); Leonida, Patti & Navarra (2005) which shows that neoliberal policies lead to democracy. However, the study by Gans-Morse & Nichter (2008) highlights that countries engaging in such policies may experience a temporary deterioration of democracy, but tends to become more democratic in the long run. Further, the studies of Przeworski, et al. (2000); Biglaiser & Danis (2002); and Jakobsen & De Soysa, (2006) show that it is the democratic countries that better protect the property rights and are efficient in distributing the resources accordingly, thus giving scope for a positive association between democracy and globalization process.

Due to the conflicting arguments in the literature and the fact that transition economies have just begun transiting from autocratic setup towards democracy, I make no assumptions on the relationship and direction between political regime and globalization process. To measure political regime, I include regime type data Polity IV constructed by Marshall & Jaggers (2002). We then follow Londregan & Poole (1996) by subtracting Polity IV's autocracy score from its Democracy score, giving rise to the final democracy score that ranges from +10 to -10, wherein, +10 being the most democratic, +5 being partially democratic and -10 is fully autocratic.

### **e. Majority Margin of Ruling Government**

The globalization process is facilitated and strengthened when the ruling party government controls the legislature (Biglaiser & Brown, 2005 and Ross, 2006). In democratic setups it becomes extremely important for the government to hold majority in the parliament for speedy implementations of the policies. Failing to hold majority would lead to coalition politics wherein it becomes extremely difficult for the government to carry forward the globalization process at rapid pace. To measure this effect, I employ the Keffer (2007) Database of Political Institutions' majority margin indicator in which the ruling governments' seat share in Parliament is computed. In some occasions a score of 1 is also given, which symbolizes that the government has full majority in the House or it is a single party state.

### **f. Political Ideologies**

Ruling party government's ideology also influences the neoliberal agenda. We have four sets of groups' viz., the right wings; left wings; centrists and others. Historically, the left wing parties like Communist Party have strong trade and industrial union associations. They are usually pro-labour, pro-middle class; pro-state intervention; anti-industrialists and MNCs. They are also major opposers of globalization policies. Kingstone & Young (2005) argue that leftists have traditionally promoted more government intervention in the economy, in the form of state enterprises and the allocation of resources to labor, domestic business, and the middle class. The study by Katsoulakos & Likoyanni, 2002 finds that across the world, neoliberal policies and more specifically privatization reforms programs unlike leftists are associated with right wing governments, who are pro-active towards such process. Thus, governments in power belonging to leftists' ideologies are associated with halt in globalization process.

To control for ruling party ideology preference, I include a measure of ruling party ideology that categorizes whether the ruling party government is a left or right or centrists. For this purpose I formulate three different variables namely, left wing dummy; right wing dummy and centrists dummy, which takes the value as 1 if the ruling party fall under any of the category and 0 otherwise respectively. The data is obtained from Keffer (2007) Database of Political Institutions. I expect both right wing and centrists' ideology based governments are associated with higher globalization.

### **g. Conflicts**

Empirical studies have found significant negative impact of conflict on short term economic growth and development (Collier, 1998). Conflicts affect growth and development process in many ways. It leads to diversion of productive resources for unproductive purposes where the returns on such investments are nothing but nil (Grossman & Kim, 1996). In an already crippled state, conflicts increases the military spending which inturn crowds-out private and foreign investments creating huge negative fiscal impact and hamper the prospects of socioeconomic development (Deger & Sen, 1983; Klein, 2004; Vadlamannati, 2008). Under these circumstances it would be difficult

to implement globalization policies at a rapid pace. This is because as already pointed out the neoliberal leads to short term losses but benefits are visible only in long run and if the equal redistribution of resources do not happen as highlighted by Rodrik (1994), this would worsen the situation. Thus, we expect a negative association between conflicts and globalization process. We introduced conflict variables as dummy coded 1 if there was conflict in the country in that year and 0 otherwise. The data for this variable is from 2007 Uppsala updated dataset on conflicts.

#### **h. Time**

Since our sample includes both developing and developed countries, the globalization process varies significantly across the countries and time. To capture the variation of globalization process throughout the countries across 32-year period, I incorporate the measure of time variable. I believe that it is very important to control for time because from 1980s there is marked increase in globalization process specially with respect to developing economies. Thus, I expect an increasing trend in all three indices as the years progress.

### **4. Empirical Results & Estimates**

#### **4. 1. Descriptive Statistical Analysis**

The sample of country-years that we examine in total make up of 2495 observations for main globalization index. This number comes down to 2400 for economic globalization index due to non availability of this index for three countries in the list of 78. This further drops to 1952 observations for restrictions index as this index is not available for as many as 17 countries. In Annexure 1, we present summary statistics for this sample for all the variables that we employ in the regression analysis. The mean value for final globalization index is 49.69 per-years with a very high standard deviation of around 19.14%. Regarding the economic globalization index, we can see that the median value is 51.73. But the variance is also fairly high, with a standard deviation of 7.53 and the same for restrictions index is 6.17 with mean of 52.41. In all these three indices, we find that standard deviation values are very high, suggesting that there is a very high country-variations in globalization process. With respect to GDP growth rate we can find that the median growth rate is 3.51%. Moreover, the variance in GDP growth rates is fairly high, with a standard deviation of 4.13% and growth rates ranging from -24.05% to 35.63%. With respect to percapita GDP, the mean value is log 7243.84% with a standard deviation of as high as 9008.05%, highlighting significant cross country variations.

In Annexure 2 we present the aggregate information about the swing and the degree of swing in final globalization index; economic globalization index and restrictions index during scheduled election years. We classified the swing or change in all the three indices, which is net change in the index in scheduled election year to immediate previous year, under three categories. These include: decline; marginal increase; and greater increase. These categories are arrived by using simple bifurcation of swing numbers which states that when the change of index from current year (election year) to

previous year is negative and or zero, then it is classified as *decline*. Similarly, when the change in the index is in the range of 0.01 – 0.85, then it is called *marginal increase phase* and when the index range from 0.86 and above, it is termed as *greater increase*. Using this simple methodology, we find in annexure 2 that out of total 494 scheduled elections which took place during 1975 – 2006 in 78 democratic countries, 40% of the times there was marginal increase in final globalization index. This means in as many as 199 scheduled election years, the overall globalization increased marginally between 0.01 – 0.86. In 135 occasions, the final globalization index registered decline, which is 27%. Remaining times, 160 scheduled elections saw globalization registering a higher increase. If we combine both decline and marginal increase election years, this comes to 334. This also means that out of total scheduled elections in all these countries during our study period, only 33% the scheduled elections did not have any impact on overall globalization index. On the contrary, with respect to economic globalization index, we find that there was greater increase in 206 election years compared to 129 and 140 election years for marginal increase and decline respectively. But combining both marginal increase and decline shows that only 40% of the times, the scheduled elections did not have any impact on economic globalization process. We also examined the emergence of this phenomenon. We found that more than 80% of these 206 elections come from developed countries. This means that in developing countries, the economic globalization is still perceived as a sensitive issue during the elections period. Finally, with respect to restrictions index, we find completely different results. Irrespective of whether it is developed or developing country, this strikes the chord with the voters. We find that around 41% of total scheduled elections, which is 160 elections out of total 387 elections, there was decline in restrictions index. Decline in restrictions index means roll back of economic, trade and financial restrictions. In as many as 30% of the total elections, which is 116 times, there was only marginal increase in the index. In the remaining 111 elections, which means only 27% there was a greater increase in the index. This gives us that first glimpse that there is certainly great impact of scheduled elections on the slowing down of globalization process in election years especially in the late over all globalization process and removal of restrictions. But it is not as comprehensive as we as we would have expected in the case of economic globalization process.

#### **4. 2. Regression Estimates**

The results of regression estimates in assessing the impact of scheduled, midterm elections and electoral cycle on globalization process is presented in table 1. We present models total nine models in which first three models (1 to 3) are related to globalization index, followed by another three models (4 to 6) are related to economic globalization index. The final three models (7 to 9) capture the Restrictions index. Addressing the problems of stability of these results, sensitivity analysis is conducted by replacing these three indices with our modified indices and the results are displayed in annexures. Similarly, other robustness check results are also displayed in annexures. We also control for the problem of Heteroskedasticity using White Heteroskedasticity-consistent standard errors & covariance.



The regression results confirm the hypothesis offered on electoral cycles in globalization process. Specifically, the results from models 1 to 3 show that scheduled elections have a significant negative effect on the overall globalization process. Concentrating on results of equation 1 indicates the direct relationship between globalization process and electoral cycle. The coefficients reported in model 1 (table 1) indicate that the scheduled elections is leading to decline in overall globalization index by 1.65% with 1% statistical significance. In model 2 we include midterm election cycle. Though the results show negative sign, the results remain statistically insignificant. This suggests that midterm elections do not have any impact on slowing down of overall globalization process because of the uncertainty of occurrence associated with such elections.

We present the electoral cycle using distance from election year dummies in model 3 (see table 1). The results show some interesting findings. We find that the variables, 3, 2, and 1 year distance from election year is positive. But the coefficient values of these variables show some interesting trends. I find that overall globalization process would still be negative -0.52% during the first year of incumbent government in office. This increase is positive 0.36% during the second year of incumbent government in office. While, economic globalization process decrease slightly with 0.34% in the third year of incumbent government in office, it decreases drastically to 0.22% in the fourth year in office, registering an insignificant decline in overall globalization index by 0.12% in the year before a scheduled election. This goes down even further in the election year resulting in negative effect on overall globalization process. The coefficients plotted in graph 1 (see annexures) clearly depict a ‘cyclical movement’ in carrying out the comprehensive globalization process by the incumbent governments. The graph shows a perfect inverted U-shaped relationship between scheduled elections, electoral cycle and overall globalization process. We also estimated this equation by including scheduled election variable with these full electoral cycle dummies in the same model (model not shown, but provided on request). We again found similar such relationship between scheduled elections, electoral cycle and overall globalization process. The coefficients of this model are also captured inverted U-shaped relationship. These results confirm all the three hypothesis, H1; H2 & H3 with respect to overall globalization process.

**Table 1:** Election cycle & Globalization; Economic Globalization; Restrictions equation

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
	(GLO)	(GLO)	(GLO)	(ECO GLO)	(ECO GLO)	(ECO GLO)	(REST)	(REST)	(REST)
Constant	-39.99 *	-40.16 *	-40.26 *	-35.86 *	-36.08 *	-36.29 *	-58.85 *	-58.17 *	-58.28 *
	(1.28)	(1.32)	(1.31)	(1.94)	(1.98)	(1.96)	(2.12)	(2.18)	(2.16)
Scheduled Election year	-1.65 *	-----	-----	-0.95 **	-----	-----	-2.47 *	-----	-----
	(0.38)			(0.47)			(0.58)		
Mid-term Election year	-----	-0.04	-----	-----	0.04	-----	-----	-0.46 *	-----
		(0.15)			(0.21)			(0.25)	
1 year before Elections	-----	-----	0.22	-----	-----	0.60	-----	-----	-0.71
			(0.49)			(0.65)			(0.78)
2 years before Elections	-----	-----	0.34	-----	-----	0.59	-----	-----	-0.76
			(0.49)			(0.66)			(0.78)

	-----	-----	0.36	-----	-----	0.57	-----	-----	-1.06
3 years before Elections			(0.51)			(0.70)			(0.81)
	-----	-----	-0.52	-----	-----	0.08	-----	-----	-1.64 +
4 years before Elections			(0.66)			(0.89)			(1.09)
GDP Growth rate	-0.004	-0.01	-0.01	0.25 *	0.25 *	0.25 *	0.18 *	0.17 **	0.17 **
Log	(0.04)	(0.04)	(0.04)	(0.06)	(0.06)	(0.06)	(0.07)	(0.07)	(0.07)
(Economic Development)	9.98 *	9.97 *	9.96 *	9.41 *	9.41 *	9.41 *	12.36 *	12.30 *	12.31 *
	(0.15)	(0.15)	(0.15)	(0.22)	(0.22)	(0.22)	(0.25)	(0.25)	(0.25)
Democracy	0.21 *	0.20 *	0.20 *	0.25 *	0.24 *	0.24 *	0.27 *	0.26 *	0.25 *
	(0.03)	(0.03)	(0.03)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Right Wing Parties in Power	-3.08 *	-3.08 *	-3.10 *	-2.46 *	-2.46 *	-2.47 *	-0.54 *	-0.55	-0.52
	(0.49)	(0.49)	(0.49)	(0.69)	(0.70)	(0.70)	(0.74)	(0.74)	(0.75)
Leftists Parties in Power	-1.33 **	-1.22 **	-1.22 **	-1.60 ***	-1.54 ***	-1.51 ***	-0.12 *	0.23	0.001
	(0.58)	(0.59)	(0.59)	(0.99)	(0.99)	(0.99)	(1.29)	(1.31)	(1.30)
Centrists Parties in Power	1.38 *	1.43 *	1.42 *	-1.99 *	-1.96 *	-1.98 *	0.54 *	0.64	0.62
	(0.44)	(0.44)	(0.44)	(0.63)	(0.63)	(0.63)	(0.74)	(0.74)	(0.74)
Majority of Ruling Government	0.92 ***	0.85 +	0.82 +	4.05 *	3.98 *	3.92 *	3.64 *	3.81 *	3.71 *
	(0.59)	(0.61)	(0.60)	(0.91)	(0.92)	(0.92)	(1.08)	(1.09)	(1.08)
Civil War	-2.42 *	-2.34 *	-2.34 *	-4.65 *	-4.61 *	-4.59 *	-2.02 *	-1.88 *	-1.95 *
	(0.41)	(0.41)	(0.41)	(0.55)	(0.55)	(0.55)	(0.67)	(0.67)	(0.67)
Time Dummy	0.62 *	0.62 *	0.62 *	0.67 *	0.67 *	0.67 *	0.57 *	0.57 *	0.57 *
	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
R-squared	0.801736	0.800121	0.800282	0.689625	0.689153	0.689343	0.731964	0.729828	0.729828
Adjusted R-squared	0.800938	0.799316	0.799235	0.688326	0.687851	0.687650	0.730582	0.728435	0.728015
S.E. of regression	8.539563	8.574279	8.576004	11.39988	11.40855	11.41223	12.14641	12.19471	12.20413
F-statistic		994.3512			529.4239		529.7829	524.0606	402.5015
Number of Countries	78	78	78	75	75	75	61	61	61
Total No. of Observations	2495	2495	2495	2400	2400	2400	1952	1952	1952

**Note:** \* Significant at 1% confidence level; \*\* Significant at 5% confidence level \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. Models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis; GLO = Globalization Index; EGLO = Economic Globalization Index; REST = Restrictions Index; Sample period: 1975 – 2006.

The relationship between economic globalization process and electoral cycle also tells the similar story. In model 4 (see table 1), we find that every single scheduled election year is associated with 0.95% decline in economic globalization process. This relationship is statistically significant at 5% confidence level. Proving again that midterm elections do not have any impact on slowing down of economic globalization process because of the uncertainty of occurrence associated with such elections, the coefficient is statistically insignificant (see model 5; table 1).

Model 6 presents the results of electoral cycle and economic globalization process. We find that all the variables, 4, 3, 2, and 1 year distance from election year is positive. I find that economic globalization process is positive with a small impact of 0.08% in the first year of incumbent government in office. During the second year of incumbent government in office, the positive impact jumps by 56.02%. This increases slightly to 0.59% during the third year of incumbent in office. In the fourth year of incumbent in

office, the index further increases by 0.60%, before becoming significantly negative in the actual scheduled election year. These results highlight some interesting trend. We find that increase in economic globalization will be faster during the first two years of the incumbent government in office. This is precisely the reason why the negative effect of scheduled elections on economic globalization turns positive in the immediate first year of the incumbent government in office. Its increase is more than 0.50% in the second year in the office. But then on, in third and fourth years of the incumbent government in office, though we notice an increasing positive effect, the hike is only marginal, by 0.1% and 0.2% respectively. The coefficients plotted in graph 2 (see annexures) also depict a 'cyclical movement' in carrying out the economic globalization process by the incumbent governments. This graph also shows a perfect inverted U-shaped relationship between scheduled elections, electoral cycle and economic globalization process. Like earlier, we also estimated this equation by including scheduled election variable with these full electoral cycle dummies in the same model (model not shown, but provided on request). We again found inverted U-shaped relationship between the two. These results prove all three hypotheses mentioned earlier with respect to economic globalization process.

The results with respect to restrictions index are slightly different. Unlike our previous results, here we find in models 7 and 8, that both scheduled and midterm elections having negative impact on economic and financial restrictions. But it is the scheduled elections which is doing most of the damage. This is because the politicians have very less control over these policy issues during the midterm election years because of its uncertain timings. Every single scheduled election year is associated with 2.47% decline in restrictions index. One many note that increase in restriction index means reducing the economic and financial restrictions. Thus, a negative sign implies that the index of removal of restrictions of various kinds is reverting back. While every midterm elections lead to 0.46% decline in restrictions index. Both the variables are statistically significant at 1% confidence level.

Model 9 presents the results of electoral cycle and restrictions index. Here, we find that all the variables, 4, 3, 2, and 1 year distance from election year is surprisingly negative. I find that restrictions index is negative with a large impact of -1.64% in the first year of incumbent government in office. During the second year of incumbent government in office, the negative impact however comes down to -1.06%. This value further comes down to -0.76% in the third year of incumbent government in office. In the penultimate year from scheduled elections, the impact on restrictions index drops to -0.71% before rising to -2.47% in the scheduled election year. In this model too, we find some interesting trends. We find that though in all years the restrictions index is negative because of its sensitive nature, which is well understandable, the negative effect keeps decreasing each year passes. The highest decline comes in the first of incumbent government in office with 0.83%, followed by 0.70% in third year and 0.58% in second year. The decline in index in the fourth year is just marginal, 0.5%. This also shows that the impact of electoral cycle on restrictions index is heading towards positive value as years pass by. The coefficients plotted in graph 3 (see annexures) though depicts 'cyclical movement' in removal of economic and financial restrictions by the incumbent governments, do not necessarily show inverted U-shaped curve. Rather, it depicts

inverted N-shaped kind of curve. We then estimated the same equation by including scheduled election variable with these full electoral cycle dummies in the same model (model not shown, but provided on request). We again found similar inverted N-shaped relationship between the two.

Within the control variables, we find increase in GDP growth rate has a greater positive influence on both economic globalization and restrictions index. Holding at its mean value, increase in GDP growth rate by its highest value (34.65%) would increase economic globalization process and removal of restrictions by 0.25% and 0.17% respectively. Strangely, we find insignificant opposite results of the same with respect to overall globalization index. With respect to economic development, we see a consistent results displaying across the board. This apart, in all the models this variable is significant at 1% confidence level. This highlights the importance of economic development in influencing globalization process as a whole. The other significant finding of the study is that increase in democracy leads to significant positive impact on all the three indices. These results are consistent with the literature which suggests that democratization led to market opening up of the economy which, in turn, improves growth (Fidrmuc, 2003 and). These results are also consistent throughout all the models with 1% significance.

Amongst other political factors, ruling party majority in parliament is strongly associated with increase in all three forms of indices. This suggests that obtaining the majority in the parliament by the ruling government can strengthen the globalization process as it would be free from coalition compulsions. The other interesting finding is that only centrists' political ideologies are found to be associated with increase in globalization and restrictions index. While both rights and left wing political ideologies are negatively associated with all three forms of indices. These results are consistent across the board. We also find significant negative impact of civil war and internal conflicts on all three indices. Again these results remain significant at 1% confidence level in all the models. Lastly, there is a 1% significant positive effect of time variable in all the three models, suggesting that as the globalization process increases as time progresses.

### **4. 3. Robustness Check**

We ran several tests of sensitivity. First, we simply ran the results again by dividing the entire sample into half. We could not find real major changes in the results for all the three forms of indices. Second, we also ran all the results again by dividing the total sample group into two sets. One set includes developing countries and second set includes only developed countries. Again our results do not find any significant changes for all the three indices for both groups. This highlight the phenomenon of electoral globalization cycle is well evident irrespective of whether the countries are developing or developed<sup>4</sup>.

The third such robustness check test was performed based on the premise that there could be reverse feedback running from socioeconomic performance towards globalization process. This might give rise to endogeneity concerns. To control for reverse causality, we

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<sup>4</sup> Both the results are not shown here due to space constraints. They will be provided upon request

ran all the models using Two Stage Least Squares method (TSLS). We make use of lagged values for key macroeconomic variables which we thought would have reverse causal effect like: GDP growth rate, percapita GDP and democracy levels as instruments for these variables. The results are displayed in annexure 3. We could not find any major significant changes in the results. Infact even the coefficient values also remained almost the same or have just marginally increased. Even in all the three cases related to electoral cycle, we could find inverted U-shaped relationship for the coefficients.

Fourth and the final robustness check include performing sensitivity analysis, this time by changing the dependent variable. As said earlier, we included proxies for all the three indices. The modified indices were used as dependent variables instead of our original indices. We ran all the models without any change with these modified indices as dependent variables. The results are captured in annexure 4. We find that despite the change in dependent variable, the scheduled election cycle has significant negative effect on all the three modified indices (see models 19, 22 & 25 in annexure 4). But for modified restrictions index, the scheduled elections though negative, is insignificant. While, consistent with our earlier findings, we could not find any statistical significant impact of midterm elections on all forms of modified indices (see models 20, 23 & 26). It is also worth noting in models 21, 24 & 27 (see annexure 5) that distance from elections cycle variables depict the trend of perfect inverted U-shaped relationship with all the three modified indices. Despite performing several robustness checks, we could gather three important findings. These include: one, scheduled elections cycle significantly slows down overall globalization process, economic globalization and removal of economic and financial restrictions. Two, there is no impact of what so ever of midterm elections cycle on all the three variables and finally, there is a clear inverted U-shaped relationship between distance from elections cycle and all the three indices, suggesting that as incumbent government nears the scheduled elections, overall globalization process, economic globalization and removal of restrictions keeps slowing down, while this is exactly opposite during the early years of incumbent government in office.

## **5. Conclusion & Summary**

Literature on political competition demonstrates how incumbent politicians might manipulate economic policies to persuade voters before an election, and thereby generate political budget cycles (Nordhuas, 1975; Lindbeck, 1976; Tufte, 1978; Rogoff & Sibert, 1988; Rogoff, 1990; Khemani 2004). Several studies followed thereafter based on these models but are mostly restricted to monetary and fiscal policies. We extend this political business cycles model to globalization process for 78 developing and developed economies for the period 1975 - 2006. We make use of Axel Dreher's comprehensive measure of globalization index as a proxy for overall globalization process along with economic globalization index and restrictions index. We then formulate 'electoral globalization cycle' based on the premise that globalization process leads to short run losses but benefit the economy in long run. Because the benefits of the neoliberal policies tends to be isolated and costs associated with it are strenuous and concentrated in short run, those sections of the society who are worst hit by these policies would like to replace the incumbent government with those who are more likely to adapt policies which do not hurt the people. This often forces the incumbent government to either maintain status quo

or drastically slowdown the globalization process as and when they near the scheduled election period. Based on this theory, we offered and tested three related hypotheses on electoral cycle related to overall globalization, economic globalization and economic & financial restrictions.

Using cross-sectional time series DPI 2007 data on elections and Dreher's overall globalization index; economic globalization index and restrictions index, we demonstrate that overall globalization process responds to the timing of general elections. We find identical results with respect to economic globalization and restrictions. While there is a strong electoral cycle in globalization process, which experiences a marked decline in election years, the impact of midterm elections is found to be insignificant on all the three. This is perhaps due to its timing which is uncertain and unanticipated which gives no scope of the incumbent governments to slow down the overall globalization process. The results portrayed in the paper are strongly valid as we have nullified the problems of stability and endogeneity concerns. We also addressed the issue of how sensitive the results are. To this end, we also addressed the issue of bounded dependent variables and converted the same into unbound variables. The results do not change using this unbounded globalization index; economic globalization index and restrictions index. Thus, an incumbent's varying degree of concern for slowing down the globalization process for its short term political gains and fear against losing the elections increases as the national elections draw nearer - does seem to be a plausible hypothesis across all the countries, and is well supported by the results in this paper. This is best exemplified by the estimated instrumental electoral cycle for all the three globalization indices wherein all the three indices tend to increase during the earlier years of an incumbent's tenure in office, and decline as the scheduled elections draws near. Further, the statistically insignificant effect of midterm elections on all the three forms of indices also provides evidence in favor of the hypotheses offered in this study.

### **Implications of the results**

The results in this paper highlight three important points. First, these results show that electoral cycles are not necessarily confined to fiscal and monetary policies alone. Rather, it can not only affect the most important policies like overall globalization process, economic globalization and economic and removal financial restrictions, which in turn drives various economic policies of the governments (like fiscal, monetary, public sector etc). Second, these results also suggest that elections can indeed act as a disciplining device for incumbent governments in the hands of the losers in the short run to influence the fate of the incumbent governments to halt the neoliberal policies. Finally, the effect of political manipulation of globalization process by the incumbent governments shows how politicians are only concerned to maximize their short run political gains at the expense of minimizing the country's long run socioeconomic benefits generated from higher levels of globalization process. Taking these results into consideration, the next interesting step could be to probe whether similar such results can be replicated using time series cross-sectional analysis at regional level. Meaning, does neo liberal policies effect the regional elections? If so, is there "electoral globalization cycle" at regional

level? These are some of the questions which give rise to further research avenues on this subject.

## Annexures

### Annexure 1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Standard Deviation	Total Observations	Total Countries
Globalization Index	49.69	46.11	93.65	9.57	19.14	2495	78
Economic Globalization Index	52.19	51.73	96.94	7.53	20.42	2400	75
Restrictions Index	52.41	50.77	97.14	6.17	23.4	1952	61
Modified Globalization Index	1.6	0.86	14.75	0.11	1.92	2495	78
Modified Economic Globalization Index	1.98	1.07	31.68	0.08	2.92	2400	75
Modified Restrictions Index	1.6	0.97	15.2	0.03	1.99	1952	61
Scheduled Elections	0.2	0	1	0	0.4	2495	78
Midterm Election Cycle	2.003	2	6	0	1.12	2495	78
1-yr before scheduled election year	0.19	0	1	0	0.39	2495	78
2-yr before scheduled election year	0.18	0	1	0	0.39	2495	78
3-yr before scheduled election year	0.17	0	1	0	0.37	2495	78
4-yr before scheduled election year	0.09	0	1	0	0.28	2495	78
GDP growth rate	3.33	3.51	35.63	-24.05	4.13	2495	78
Log (Per capita GDP)	7243.84	2591.47	41445.94	124	9008.05	2495	78
Democracy	4.02	8	10	-10	6.91	2495	78
Right Wing	0.32	0	3	0	0.47	2495	78
Left Wing	0.07	0	1	0	0.25	2495	78
Centrists	0.32	0	1	0	0.47	2495	78
Majority Margin of ruling party	0.63	0.59	1	0	0.26	2495	78

Civil War	0.17	0	1	0	0.38	2495	78
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**Annexure 2: Globalization process during Scheduled election years**

Status of Globalization Index	No. of Scheduled Elections	% Share	Jump in Index
Higher Increase in Index	160	33%	> 0.86 & above
Marginal Increase in Index	199	40%	0.10 – 0.85
Decline in Index	135	27%	< 0.00 & Negative
<b>Total Scheduled Elections</b>	<b>494</b>	<b>100%</b>	

Status of Economic Globalization Index	No. of Scheduled Elections	% Share	Jump in Index
Higher Increase in Index	206	43%	> 0.86 & above
Marginal Increase in Index	129	27%	0.10 – 0.85
Decline in Index	140	30%	< 0.00 & Negative
<b>Total Scheduled Elections</b>	<b>475</b>	<b>100%</b>	

Status of Restrictions Index	No. of Scheduled Elections	% Share	Jump in Index
Higher Increase in Index	111	29%	> 0.86 & above
Marginal Increase in Index	116	30%	0.10 – 0.85
Decline in Index	160	41%	< 0.00 & Negative
<b>Total Scheduled Elections</b>	<b>387</b>	<b>100%</b>	

**Note:** Decline = change in index is either 0.00 or negative in t from t-1; Marginal increase = change in index range between 0.10 – 0.85; Higher increase = change in index range from 0.86 and above. t = current year



**Annexure 3: Two Stage Least Square Analysis – Election cycle & Globalization;  
Economic Globalization; Restrictions equation function**

Variables	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18
	(GLO)	(GLO)	(GLO)	(ECO GLO)	(ECO GLO)	(ECO GLO)	(REST)	(REST)	(REST)
Constant	-39.62 *	-39.64 *	-39.77 *	-37.72 *	-37.75 *	-38.06 *	-60.38 *	-59.21 *	-59.26 *
	(1.49)	(1.52)	(1.51)	(2.21)	(2.24)	(2.21)	(2.39)	(2.40)	(2.37)
Scheduled Election year	-1.68 *	-----	-----	-0.98 **	-----	-----	-2.58 *	-----	-----
	(0.38)			(0.49)			(0.59)		
Mid-term Election year	-----	-0.05	-----	-----	-0.02	-----	-----	-0.50 **	-----
		(0.16)			(0.21)			(0.25)	
1 year before Elections	-----	-----	0.24	-----	-----	0.53	-----	-----	-0.74
			(0.49)			(0.66)			(0.78)
2 years before Elections	-----	-----	0.40	-----	-----	0.51	-----	-----	-0.91
			(0.50)			(0.68)			(0.80)
3 years before Elections	-----	-----	0.40	-----	-----	0.61	-----	-----	-0.84
			(0.52)			(0.71)			(0.83)
4 years before Elections	-----	-----	-0.57	-----	-----	-0.06	-----	-----	-1.89 ***
			(0.68)			(0.93)			(1.11)
GDP Growth rate	-0.03	-0.06	-0.06	0.58 *	0.57 *	0.56 *	0.34 **	0.30 ***	0.29 *
	(0.11)	(0.11)	(0.11)	(0.15)	(0.15)	(0.15)	(0.16)	(0.16)	(0.16)
Log	9.93 *	9.91 *	9.90 *	9.46 *	9.45 *	9.45 *	12.37 *	12.27 *	12.26 *
(Economic Development)	(0.15)	(0.15)	(0.15)	(0.23)	(0.23)	(0.23)	(0.26)	(0.26)	(0.26)
	0.23 *	0.23 *	0.23 *	0.25 *	0.25 *	0.24 *	0.28 *	0.28 *	0.27 *
Democracy	(0.04)	(0.04)	(0.04)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Right Wing Parties	-3.23 *	-3.25 *	-3.25 *	-2.41 *	-2.43 *	-2.43 *	-0.45	-0.49	-0.48
in Power	(0.50)	(0.51)	(0.51)	(0.70)	(0.70)	(0.70)	(0.75)	(0.76)	(0.76)
Leftists Parties in Power	-1.40 **	-1.31 **	-1.30 **	-1.40 +	-1.35 +	-1.32	-0.002	0.39	0.13
	(0.61)	(0.61)	(0.61)	(0.99)	(0.99)	(0.99)	(1.33)	(1.33)	(1.32)
	1.33 *	1.36 *	1.35 *	-1.74 *	-1.72 *	-1.73 *	0.72	0.77	0.74
Centrists Parties in Power	(0.46)	(0.46)	(0.46)	(0.65)	(0.65)	(0.65)	(0.76)	(0.76)	(0.76)
Majority of Ruling	0.78	0.74	0.71	3.85 *	3.84 *	3.75 *	3.86 *	4.08 *	3.98 *
Government	(0.64)	(0.66)	(0.65)	(0.97)	(0.99)	(0.99)	(1.15)	(1.15)	(1.14)
Civil War	-2.41 *	-2.34 *	-2.34 *	-4.80 *	-4.76 *	-4.75 *	-1.83 *	-1.96 *	-2.04 *
	(0.42)	(0.42)	(0.42)	(0.57)	(0.57)	(0.57)	(0.79)	(0.68)	(0.68)
	0.63 *	0.63 *	0.63 *	0.69 *	0.69 *	0.69 *	0.60 *	0.60 *	0.59 *
Time Dummy	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)
R-squared	0.800797	0.799011	0.799203	0.686755	0.686590	0.686802	0.732959	0.730917	0.730967
Adjusted R-squared	0.799969	0.798176	0.798116	0.685401	0.685235	0.685039	0.731537	0.729485	0.729103
S.E. of regression	8.566407	8.604715	8.605985	11.45990	11.46292	11.46649	12.12392	12.17017	12.17877
F-statistic	961.9397	952.5289	732.6332	512.2402	511.3074	393.1284	510.3766	506.0523	388.6436

Number of Countries	78	78	78	75	75	75	61	61	61
Total No. of Observations	2495	2495	2495	2400	2400	2400	1952	1952	1952

**Note:** \* Significant at 1% confidence level; \*\* Significant at 5% confidence level \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. Models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis; GLO = Globalization Index; EGLO = Economic Globalization Index; REST = Restrictions Index; Sample period: 1975 – 2006.

**Instrument Variables** = GDP growth rate (t-1); Log (Economic Development (t-1)) & Democracy (t-1)

#### Annexure 4: Election cycle & Modified Globalization; Modified Economic Globalization; Modified Restrictions equation

Variables	Model 19	Model 20	Model 21	Model 22	Model 23	Model 24	Model 25	Model 26	Model 27
	(MGLO)	(MGLO)	(MGLO)	(ECO GLO)	(ECO GLO)	(ECO GLO)	(MREST)	(MREST)	(MREST)
Constant	-5.88 * (0.22)	-5.86 * (0.23)	-5.92 * (0.23)	-8.97 * (0.61)	-8.97 * (0.62)	-9.06 * (0.63)	8.75 * (0.33)	8.69 * (0.34)	8.79 * (0.33)
Scheduled Election year	-0.17 * (0.06)	-----	-----	-0.17 *** (0.09)	-----	-----	-0.07 (0.06)	-----	-----
Mid-term Election year	-----	-0.02 (0.02)	-----	-----	-0.01 (0.04)	-----	-----	0.03 (0.03)	-----
1 year before Elections	-----	-----	0.02 (0.08)	-----	-----	0.10 (0.13)	-----	-----	-0.03 (0.09)
2 years before Elections	-----	-----	0.03 (0.08)	-----	-----	0.14 (0.15)	-----	-----	-0.04 (0.09)
3 years before Elections	-----	-----	0.07 (0.08)	-----	-----	0.16 (0.15)	-----	-----	-0.02 (0.10)
4 years before Elections	-----	-----	-0.06 (0.07)	-----	-----	-0.02 (0.13)	-----	-----	-0.07 (0.16)
GDP Growth rate	-0.01 ** (0.00)	-0.01 ** (0.00)	-0.01 ** (0.00)	0.07 * (0.01)	0.07 * (0.01)	0.07 * (0.01)	-0.02 * (0.01)	-0.02 ** (0.01)	-0.02 ** (0.01)
Log (Economic Development)	0.83 * (0.03)	0.83 * (0.03)	0.83 * (0.02)	1.18 * (0.07)	1.18 * (0.07)	1.18 * (0.07)	-0.80 * (0.04)	-0.80 * (0.04)	-0.80 * (0.04)
Democracy	0.001 (0.00)	0.0001 (0.00)	-0.0002 (0.00)	-0.06 * (0.01)	-0.06 * (0.01)	-0.06 * (0.01)	-0.02 * (0.01)	-0.02 ** (0.01)	-0.02 ** (0.01)
Right Wing Parties in Power	-0.29 * (0.07)	-0.29 * (0.07)	-0.29 * (0.07)	-0.78 * (0.13)	-0.78 * (0.14)	-0.79 * (0.13)	-0.04 (0.08)	-0.04 (0.08)	-0.04 (0.08)
Leftists Parties in Power	-0.28 * (0.07)	-0.27 * (0.07)	-0.27 * (0.07)	0.28 (0.28)	0.29 (0.28)	0.29 (0.29)	0.12 (0.12)	0.10 (0.12)	0.11 (0.12)
Centrists Parties in Power	0.05 (0.06)	0.06 (0.06)	0.06 (0.06)	-0.66 * (0.12)	-0.65 * (0.12)	-0.65 * (0.12)	0.18 (0.11)	0.18 *** (0.10)	0.18 *** (0.10)
Majority of Ruling Government	0.25 * (0.08)	0.25 * (0.08)	0.24 * (0.08)	1.08 * (0.17)	1.08 * (0.17)	1.05 * (0.16)	0.05 (0.15)	0.04 (0.15)	0.07 (0.15)
Civil War Time Dummy	-0.21 * (0.04)	-0.20 * (0.04)	-0.20 * (0.04)	-0.40 * (0.07)	-0.39 * (0.07)	-0.39 * (0.07)	-0.01 * (0.10)	-0.02 (0.10)	-0.02 (0.09)
	0.06 * (0.06)	0.06 * (0.06)	0.05 * (0.05)	0.08 * (0.08)	0.08 * (0.08)	0.09 * (0.09)	-0.04 * (0.04)	-0.04 * (0.04)	-0.04 * (0.04)

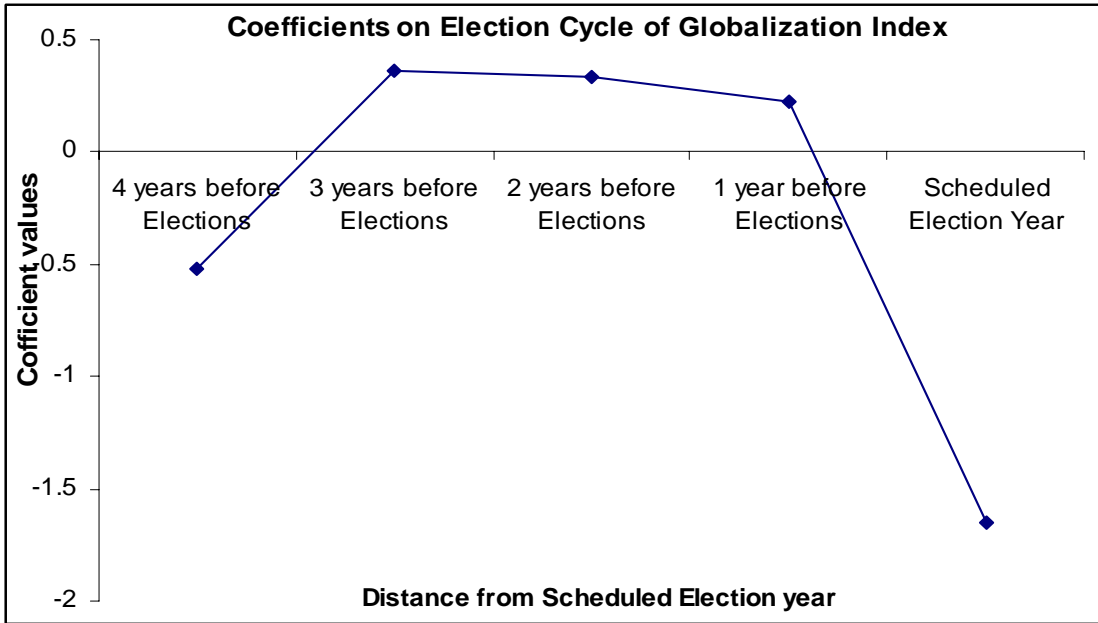
	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
R-squared	0.504822	0.503232	0.503357	0.360837	0.360108	0.360673	0.449472	0.449476	0.449262
Adjusted R-squared	0.502829	0.501232	0.500755	0.358161	0.357429	0.357188	0.446634	0.446639	0.445566
S.E. of regression	1.351374	1.353543	1.354191	2.338813	2.340146	2.340584	1.481426	1.481420	1.482855
F-statistic		251.6325			134.3882		158.3891		121.5463
Number of Countries	78	78	78	75	75	75	61	61	61
Total No. of Observations	2495	2495	2495	2400	2400	2400	1952	1952	1952

**Note:** \* Significant at 1% confidence level; \*\* Significant at 5% confidence level \*\*\* Significant at 10% confidence level; + Significant at 15% confidence level. Models are controlled for Heteroskedasticity. White Heteroskedasticity-Consistent Standard Errors are reported in parenthesis; GLO = Globalization Index; EGLO = Economic Globalization Index; REST = Restrictions Index; Sample period: 1975 – 2006.

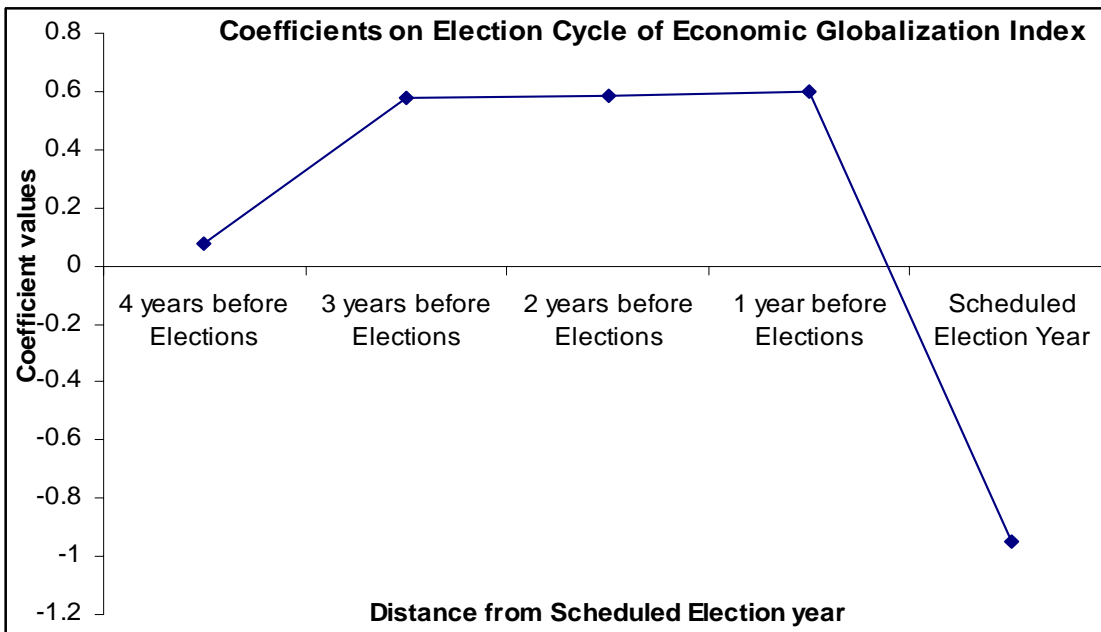
### Annexure 5: 78 countries under Study

Argentina	Norway	Nepal
Australia	Mauritius	new Zealand
Austria	Malawi	Pakistan
Belgium	Malaysia	panama
Bangladesh	Netherlands	Peru
Bolivia	Gabon	Philippines
Brazil	UK	Poland
Botswana	Greece	Portugal
Canada	Guatemala	Paraguay
Switzerland	Guyana	Romania
Chile	Honduras	Senegal
Cote de Ivory	Haiti	Singapore
Cameroon	Hungary	El Salvador
Colombia	Indonesia	Sweden
Costa Rice	India	Syria
Cyprus	Ireland	Thailand
Germany	Iran	Trinidad & Tobago
Denmark	Israel	Tunisia
Dominican republic	Italy	Tanzania
Algeria	Jamaica	turkey
Ecuador	Japan	Uruguay
Egypt	Kenya	USA
Spain	Sri Lanka	Venezuela
Finland	Madagascar	south Africa
Fiji	Mexico	Zambia
France	Mali	Zimbabwe

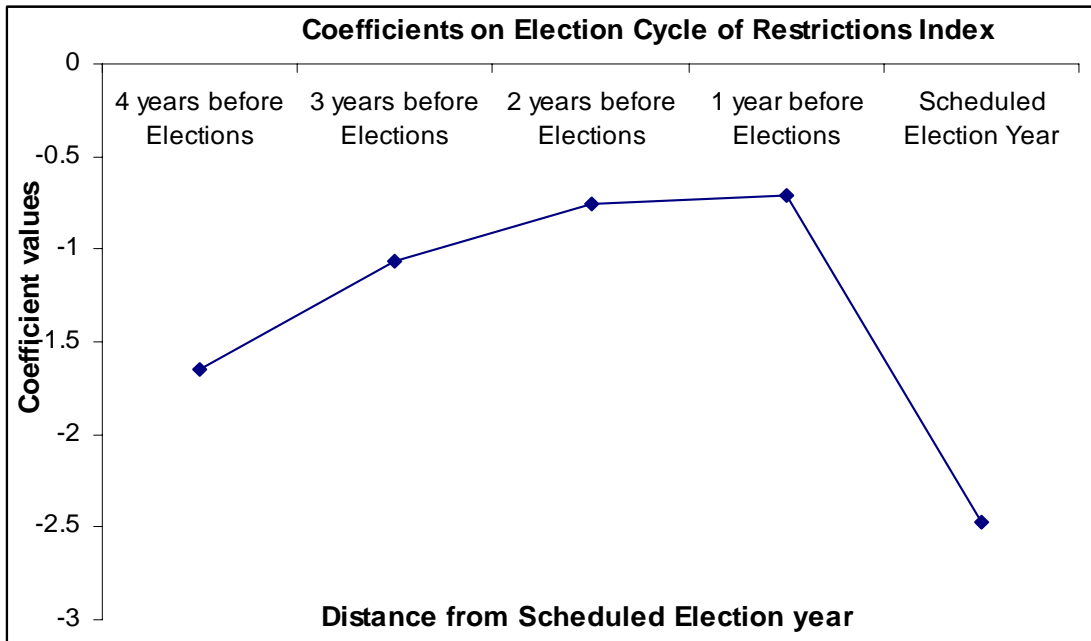
**Graph 1**



**Graph 2**



**Graph 3**



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