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Título

Redistribution in parliamentary democracies: the role of second-dimensional identity politics

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Abstract:
En esta tesis se exploran los efectos redistributivos de la dimensión identitaria-territorial en las democracias parlamentarias de la OCDE. El argumento principal es que la relevancia de esta dimensión de competición política puede distorsionar significativamente la naturaleza de los resultados redistributivos. La pregunta principal de la tesis es, por tanto, en qué medida y bajo qué circunstancias una dimensión de competición política de carácter territorial puede afectar las políticas redistributivas en las democracias parlamentarias. En general la redistribución es mayor en sistemas de representación proporcional respecto a sistemas mayoritarios. Sin embargo, esta tesis muestra que cuando la dimensión identitaria-territorial es relevante electoralmente, los dos regímenes institucionales no difieren en sus niveles de gasto redistributivo. La presente tesis trae pues "malas noticias" en este sentido: cuando la competición política es multidimensional, entonces deja de ser cierta la visión predominante en la literatura según la cual las democracias parlamentarias con sistemas proporcionales redistribuyen más. La tesis se divide en dos partes: una parte teórica y otra empírica. La parte teórica ilustra mediante un modelo formal la forma en que los incentivos electorales de los partidos políticos influyen en la fase electoral y la posterior fase de negociación de apoyos legislativos en los parlamentos nacionales. Dependiendo de cuál sea la distribución geográfica de los votantes, tanto los partidos de derecha como los partidos regionalistas pueden tener incentivos a incrementar el énfasis de la dimensión territorial para atraer a los votantes que de otro modo no votarían por ellos. Además, esta mayor relevancia de la segunda dimensión puede afectar también a la negociación partidista en los parlamentos, ofreciendo nuevas oportunidades para acuerdos legislativos. En la segunda parte de la tesis se realizan diferentes pruebas empíricas de las implicaciones del modelo formal en diferentes niveles: a nivel macro, explorando los efectos de la composición de los parlamentos nacionales; a nivel de partidos, analizando cuándo y por qué los partidos enfatizan la dimensión territorial; y a nivel micro, explorando la formación de las preferencias individuales de los votantes. Los principales resultados empíricos y contribuciones pueden resumirse como sigue. En primer lugar, una mayor relevancia legislativa de la dimensión territorial induce, por un lado, un efecto negativo sobre los niveles de redistribución, y por otro lado, un efecto positivo sobre la regionalización de las políticas públicas. Por tanto, los resultados proporcionan evidencia de un "trade-off" entre los niveles generales de gasto público social y la regionalización de las políticas públicas, el cual parece ser función de la multidimensionalidad del espacio político. En segundo lugar, se presenta evidencia según la cual tanto los partidos de derecha como los partidos regionalistas aumentan estratégicamente la relevancia de la dimensión territorial cuando están alejados del votante mediano en la dimensión económica y además han sufrido una pérdida electoral. Es decir, tanto los partidos de derecha como los regionalistas parecen llevar a cabo maniobras herestéticas o de manipulación

estratégica de la segunda dimensión de competición política. Finalmente, se ilustra de qué manera la relevancia de la dimensión territorial puede afectar la formación de las preferencias de los votantes respecto a la redistribución inter-regional.

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REDISTRIBUTION IN PARLIAMENTARY DEMOCRACIES: THE ROLE OF SECOND DIMENSIONAL IDENTITY POLITICS

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Esta obra se presentó como tesis doctoral en Nuffield College y en el Departamento de Ciencias Políticas y Relaciones Internacionales de la Universidad de Oxford el 28 de noviembre de 2013. El Tribunal que evaluó la tesis estuvo compuesto por los profesores doctores David Soskice (Universidad de Oxford y London School of Economics) y Orit Kedar (Universidad Hebrea).

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A la Rosa Maltas Carbonell, la mare.

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ABSTRACT

In this dissertation I explore the redistributive effects of second dimensional identity politics in parliamentary democracies. Specifically, I focus on the redistributive consequences of parties' electoral incentives to manipulate the salience of the territorial cleavages. The main argument is that the electoral salience of the second dimension can profoundly distort the nature of redistributive outcomes. Although the redistributive effects of 2nd dimensions of political competition have been explored in majoritarian democracies, much less is known about their effects in advanced democracies with proportional representation. The present dissertation brings "bad news" in that regard: when the territorial 2nd dimension is salient, it is no longer true that parliamentary democracies with proportional electoral systems always redistribute more –which is the prevalent view in the existing literature.

As such, the main question the dissertation engages with is why and under what circumstances does a 2nd dimension of identity politics affect redistribution. This dissertation offers a theory in the form a formal model by which both right-wing and regionalist parties have an incentive to increase the electoral salience of the territorial dimension and thereby affect the electoral stage as well as the stage of coalition bargaining in national legislatures. Right-wing parties pull toward less redistribution along income lines, while regionalist parties pull toward regionalized public policy. Accordingly, a crucial trade-off emerges between income based redistribution, one the one hand, and regionalisation of public policy, on the other hand.

The dissertation is divided in two parts: one theoretical and one empirical. First, I develop a formal model that illustrates the way in which parties' electoral incentives affect both the electoral stage and, also, the subsequent post-electoral coalition bargaining among parties in national parliaments. The reason is that both right-wing and regionalist parties have incentives to increase the salience of the 2nd dimension at the electoral stage to

attract voters that otherwise would not vote for them, and subsequently the coalition bargaining among parties in parliaments offers new opportunities for legislative coalitions. In the second part of the dissertation, I test the empirical implications at the macro-level, the party-level and at the individual-level. The empirical part of the dissertation uses a novel dataset compiled for 18 OECD democracies and confirms the main hypotheses developed in the theoretical section.

The main empirical results and contributions can be summarised as follows. First, I present evidence according to which a greater legislative salience of the territorial-identity dimension induces a negative effect on redistribution and a positive effect on the regionalisation of public policy in parliamentary democracies. By regionalisation of public policy I mean an increase in the levels of economic self-rule at the regional level. Therefore, the results provide evidence of the mentioned trade-off between overall public social spending and regionalisation of public policy; which seems to be driven by the dimensionality of the political space. Second, I provide evidence which shows that right-wing and regionalist parties both strategically increase the electoral salience of the territorial dimension when they are electoral "losers" on the economic dimension. Finally, I also illustrate the way in which the electoral salience of the territorial-identity dimension affects the formation of individual preferences for redistribution.

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"Quan surts per fer el viatge cap a Ítaca,
has de pregar que el camí sigui llarg,
ple d'aventures, ple de coneixences.
Has de pregar que el camí sigui llarg,
que siguin moltes les matinades
que entraràs en un port que els teus ulls ignoraven,
i vagis a ciutats per aprendre dels que saben."
Viatge a Ítaca, Kavafis.

Why I started such a long journey? Both my mother and my father crucially shaped the way I think. Without doubts I owe much, if not all, of my curiosity to them. Moltes gràcies a tots dos per ser-hi sempre. Of course I have had many teachers over the years but the one who really taught me to constantly challenge conventional wisdoms is my father: Cinto Amat. I remember being at home and watching the news on TV and discussing about politics with you. In fact, this is an exercise that we still often do.

Very unfortunately, though, my mother, Rosa Maltas, died when this dissertation was being written. As David Soskice sharply pointed to me, living suddenly without your mom is like suddenly living without a roof. But somehow, with the help of many good friends, I managed to complete the dissertation. That's the reason why this dissertation is dedicated to her memory. Mare, aquest llibre és per a tu. Et guardo en un tresor immens. Also, I wish to thank my sister, Elena Amat, and my aunt, Carme Maltas, who have been sources of love and support. They have always been there, somehow behind the scenes, but giving me crucial support. Thanks for understanding that sometimes this dissertation absorbed me and left me with less time for you.

Writing a dissertation is a strange mixture of solitude regularly broken up by the possibility to meet people throughout the journey. I have been fortunate enough to meet an incredible amount of great people. On one hand, I have been terribly lucky with the supervisors: Pablo Beramendi and David Rueda. Pablo supported me from the very beginning and has been a crucial

source of insights, encouragement and helpful discussions. He is a brilliant researcher form whom I have learned a lot. But most importantly, Pablo gave me enough space to develop my own ideas but also inspired me with lots of comments and criticisms. Pablo, de verdad, muchas gracias.

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On the other hand, there is a very large list of friends that I made throughout the journey. The list is so long that it is almost impossible to write it down. But I simply cannot resist the temptation to at least mention Tim Mueller, Ignacio Jurado, Sandra Léon, Albert Falcó, Pablo Fernández, Alberto Penadés, Gonzalo Rivero, Laia Balcells, Pepe Fernández-Albertos, Amparo Gongález, Ignacio Urquizu, Sebastian Lavezzolo, Eduard Bonet, Jon Fahlander, Pavan Mamidi, Isabel Yglesias, Johan Koskinen, Niki Koepke, Sorana Toma, Lindsey Richardson, Thomas Grund, Elias Dinas, Pedro Riera, Juan Antonio Mayoral, Irene Menéndez, Didac Queralt, Maria José Hierro, Sergi Pardos, Anja Neundorf, Luis Miller, Paloma Ubeda, Daniel Brieba, Mark Levels, Moritz Mihatsch, Thees Spreckelsen, Anthony Harris, Alex Herzog, Tim Hicks, Timo Idema, Carlos González, Sandra González and "la consellera" Sonia Trigueros. We became great friends with Pedro Riera in Madrid sharing doubts and fears, loves and nights. Ignacio Jurad also deserves special credit, since I followed his steps in Oxford and he always guided me with

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"Tingues sempre al cor la idea d'Ítaca. Has d'arribar-hi, és el teu destí, però no forcis gens la travessia. És preferible que duri molts anys, que siguis vell quan fondegis l'illa, ric de tot el que hauràs guanyat fentel camí, sense esperar que et doni més riqueses. Ítaca t'ha donat el bell viatge, sense ella no hauries sortit. I si la trobes pobra, no és que Ítaca t'hagi enganyat. Savi, com bé t'has fet, sabràs el que volen dir les Ítaques".

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Barcelona, April 2015

"He who determines what politics is about runs the country, because the definition of the alternatives is the choice of conflicts, and the choice of conflicts allocates power"
Schattschneider

"In a large republic, the common good is sacrificed to a thousand considerations. It is subordinated to various exceptions. It depends on accidents. In a small republic, the public good is more strongly felt, better known, and closer to each citizen"
Montesquieu

CHAPTER 1. INTRODUCTION

1.1. Motivation

This dissertation brings "bad news" and a dose of realism when addressing the question "*why some democracies redistribute more than others?*" This fundamental question has been explored by a very large amount of previous research. It is true that a lot of progress has been made and significant principles established. In fact, the political-economy literature has gained a lot of its recent impetus by improving its ability to provide systematic evidence on, for example, the relationship between electoral systems and redistributive outcomes. However, some key questions remain to be answered to properly understand how advanced industrial

democracies function. For example, to what extent redistribution and regionalisation of public policy are the result of coalition bargaining among political parties in national parliaments? Is it really the case that institutions are more important than the nature of existing social cleavages in determining redistribution? What are the feedback effects between redistribution and political choices?

These are some of the crucial questions that I will address in this dissertation. It is worthwhile emphasising that the empirical literature alone has oftentimes provided unsatisfactory responses to some of these questions. Instead, here I argue that the most effective way to understand what underpins democracies is by combining theoretical and empirical work. This is because a greater effort is needed to understand the specific political-economy mechanisms that affect redistribution. Therefore, the main objective here is to discuss a mechanism that I contend critically determines the dynamics of redistributive outcomes in parliamentary democracies. Specifically, I will focus on parties' electoral incentives to manipulate the salience of the territorial-identity cleavage. And the "bad news" will emanate from here: the ability of political parties to strategically manipulate the salience of this second dimension will have negative consequences for redistribution.

In the well-known "*Paper Stones*" dissertation, Przeworski and Sprague (1986) argued that left parties need political competition to be structured along the traditional left-right dimension of political competition. But what happens when this is not the case? Why are left-wing parties more likely to suffer from the greater salience of a second dimension? Under what economic and institutional conditions are parties more likely to activate second dimensions? All of these are key questions since they are likely to affect the "conflicting processing mechanisms" (Przeworski, 2013) in advanced democracies, but unfortunately we know little about them. For example, we do not know whether answers to these questions will vary depending on the nature of the second dimension. It seems reasonable to expect that the

geographical distribution of voters is likely to play a key role when the second dimension is structured along the lines of a territorial-identity cleavage, but maybe a less important one when the most prominent 2nd dimension is a religious one –since religious voters are more evenly distributed across districts.

In the present dissertation I put forward a novel argument that can be succinctly summarised as follows: a politically activated territorial-identity dimension can have profoundly negative redistributive implications in multiparty proportional representation (PR) systems. In fact, I will show that PR systems are no longer more redistributive when the territorial-identity dimension is salient. It is rather obvious that redistributive tensions are at the heart of many parliamentary democracies; but the role that territorial-identity politics plays in conflicts over redistribution is much less obvious. Thus, the specific question that I address in this dissertation is how and why a salient territorial-identity cleavage modifies and distorts redistributive spending in parliamentary democracies. In doing so, I will explore in detail the ways in which the territorial identity cleavage affects (i) the strategies of political parties and (ii) the nature of post-electoral coalition politics that determine fiscal choices. In other words, I will argue that both the electoral and the legislative stages are crucially affected by the salience of the territorial-identity cleavage.

To understand why redistributive outcomes can be a function of two-dimensional politics in multiparty PR systems, imagine the following scenario. On the one hand, assume that a regionalist party is interested in increasing the provision of territorial goods to particular districts. On the other, that a left-wing party wants to increase the overall levels of redistribution, whereas a right-wing party derives negative utility from all forms of redistribution. Also, assume that parties differ in the relative salience of their preferences over the two dimensions. Given this framework, parties can have electoral incentives to manipulate the dimensionality of the political space in order to gain votes at the electoral stage, especially those that are losers on the first

dimension. This is the essence of the `heresthetics mechanism´ that I will explore (Riker, 1986). But not only that, the post-electoral legislative bargaining game will also be affected by the dimensionality of the political space since it will open up the possibility of new coalitions, because the pie will be divided on two dimensions instead of one. The right-wing parties, I argue, will also benefit from these new opportunities for legislative coalitions.

Therefore, in more general terms, the objective of this dissertation is to analyse the extent to which the existing social structure, defined in terms of income inequalities and regional-identity differences, affects the nature of political competition and redistributive outcomes. This question has well-established roots in the classical political science literature (Duverger 1954, Lipset and Rokkan 1967), but it is also related to recent contributions in political-economy literature such as Alesina and Glaeser (2004). In their seminal work, Lipset and Rokkan (1967) already identified the territorial center-periphery cleavage as one of the structuring elements of party competition in western democracies. But rather unfortunately, recent accounts have focused on institutional explanations that oftentimes assume as exogenous the levels of political mobilisation of the cleavages (Hopkins, 2010).

Instead, here I follow an approach similar to Lipset and Rokkan (1967), in which the cleavage structure crucially shapes the electoral incentives of political parties. When this "Rokkanian approach" is taken seriously, it follows that it is no longer true that PR multiparty systems redistribute more. And importantly, I will consider the dimensionality of the political space as being endogenous to the cleavage structure and conditioned by institutions. Thus, this dissertation can also be read as a reexamination of the new-institutionalism literature that has argued that proportionality is likely to generate positive effects on redistribution (Iversen and Soskcie 2006). From that perspective, this is an effort to understand how diversity interacts with institutions through multidimensional political competition.

1.2 Intellectual Context

This dissertation brings together the comparative politics and public finance literature on both (i) the institutional determinants of redistribution (Persson and Tabellini 2003, Iversen and Soskice 2006); and (ii) the political economy of decentralisation, regional politics and federalism (Rodden and Wibbels 2002, Alesina and Spolaore 2003, Beramendi 2012). Both sets of literature offer fundamental insights in understanding the determinants of redistributive outcomes in parliamentary democracies, in which the territorial-identity cleavage constitutes a salient dimension. I now turn to a brief discussion of some of the main ingredients of both, since they constitute the pillars upon which this dissertation is built. I will emphasise the elements that are still under dispute and the shortcomings in relation to the ability of the existing literature in explaining redistributive outcomes when party competition is multidimensional.

1.2.1. Identity, Institutions and Redistribution

On one hand, the literature on comparative politics and public finance has focused on the effects of institutions on the size and scope of government spending and public goods provision (Persson et al 2000; Iversen and Soskice 2006). This literature has been useful in helping to understand systematic differences in the size of government spending. For example, Persson and Tabellini (2003) have shown that majoritarian electoral systems and presidential regimes are associated with less government expenditure. On the other hand, Austin-Smith (2000), Iversen and Soskice (2006) and Persson et al (2007) have argued that PR systems are associated with greater redistribution. Importantly, Austin-Smith (2000) emphasised the reasons why it is important to explore the effects of institutions on the incentives of the political actors. He argued that this is the case because institutions

shape not only individual voters' behaviour, but also the incentives of political parties.

However, the new-institutionalism literature has mainly neglected to date the existence of second dimensions of party competition. Notwithstanding, in many countries the structure of political competition among parties is not solely based on the income dimension, but is in fact multidimensional. Only a few studies have attempted to build a theory of ethnic diversity and income redistribution (Alesina et alt 1999; Levy 2005; Shayo 2009). But almost all prior theoretical studies that have attempted to model the effects of ethnic diversity on redistribution have not taken into account the role of institutions. Therefore, from a purely theoretical perspective, there is an important unbalance between the studies that have highlighted the role of institutions, oftentimes using partisanship politics models, and those that have emphasised the role of ethno-linguistic diversity and other forms of identity, but ignored institutions –Levy (2005) is a very good example of this.

One of the few exceptions that address the effects of diversity on redistributive outcomes with a fully-fledged institutional approach is the study by Austin-Smith and Wallerstein (2006) on affirmative action policies in the US. Hence, there is a clear lack of political mechanisms disentangling the effects of institutions on the behaviour of political actors when politics are multidimensional. As a result, one of the main critiques that can be made of the new institutionalism literature is precisely the lack of heterogeneity in political preferences both by voters and parties (Boix, 2006). In other words, there is no treatment of heterogeneity in preferences over various policy dimensions. And in fact, this limitation explains why the incentives of political parties under different institutional settings and varying social structures have not been fully explored. However, here I contend that by explicitly modelling a second dimension it is possible to improve the explanatory power of institutional models.

From an empirical perspective, however, many recent studies have highlighted a robust negative relationship between ethnic

diversity and the size of government spending both across and within countries (Alesina et alt 1999, Alesina and Glaeser 2004, Desmet et al 2011). Alesina and Glaeser (2004) famously argued that the reason behind the underdevelopment of the welfare state in the US is high levels of racial fractionalisation. But interestingly, they also argued that PR systems favour social spending programs with universal characteristics. More recently, Desmet et al (2011) have also uncovered a robust negative relationship between ethno-linguistic cleavages and redistribution, the provision of public goods and economic growth. These studies typically use large N cross-sectional data and have been very influential. However, they suffer from a severe limitation: they do not provide fully-fledged political mechanisms relating the levels of ethno-linguistic diversity to redistribution.

As a reaction to those "politically-blind" studies, the core of the political mechanism that I propose in this dissertation is the ability of political parties to strategically manipulate the salience of a second dimension, an argument which corresponds to the notion of heresthetical manoeuvres famously coined by Riker (1986). As Riker himself defined the concept of heresthetics: "*typically (parties) win because they have set up the situation in such a way that other people will want to join them –or will feel forced by the circumstances to join them- even without any persuasion at all. And this is what heresthetic is about: structuring the world so you can win*". In this dissertation, an increase in the salience of the territorial-identity dimension will be related to the conflict over the regionalisation of public policy. This is possible as long as political parties' strategies are defined in terms of preferences for inter-personal redistribution and preferences over the regionalisation of public policy. To establish a relationship between the political salience of the territorial dimension and the levels of redistribution is therefore the main purpose of this dissertation.

Interestingly, Glaeser (2005) also formalised the argument according to which political elites may have incentives to prime second dimensions in the electoral market. His contention is that

the members of relatively rich majority groups will have electoral incentives to prime group identities in order to attract poor members of the majority. Analogously, if the territorial second dimension constitutes a salient cleavage, both nationwide and regionalist parties are likely to have incentives to strategically manipulate this dimension when they are "losers" on the first one. Therefore, I will argue that the right and regionalist parties are particularly likely to increase the salience of the territorial-identity cleavage to obtain an electoral advantage. Roemer (1998) modelled a similar political mechanism to describe why we observe less redistribution when politics are two-dimensional and the religious/moral issue dimension plays a crucial role. His model, which predicts that the left party will need to lower its preferred tax rates, has been very influential and is the seminal work on multidimensional politics and redistribution. However, the model uses a two-party system framework that is difficult to apply in parliamentary democracies.

From a rather different perspective, recent contributions from the comparative politics literature like Scheve and Stasavage (2006), Huber and Stanig (2007) and Rodden and De la O (2008) have shown the way in which second dimensions affect individual political preferences over redistribution and vote choice. The most intriguing and common finding among these studies is the significant amount of poor and middle-income voters that vote for right-wing parties. Interestingly, Rodden and De la 0 (2008) highlighted what should be referred to as "the mystery of PR"; that is, the relatively high number of poor income voters that vote for Christian-Democratic parties in multiparty PR systems. However, regarding the implications of the religious dimension, the debate is still open between those that argue with a Marxian flavour that low-income voters are "distracted" from their true economic preferences, and those like Scheve and Stasavage (2006) who argue that religiosity and redistribution are substitutes –for a summary of this debate see Amat and Wibbels (2009).

1.2.2. The Political Economy of Fiscal Federalism

In any case, one of the main sources of heterogeneity in political preferences in many parliamentary democracies is regional-identity. Bird and Ebel (2006) argued that diversity in regional identities remains an understudied factor in explaining the way in which regions are treated. As a result, the dynamics of redistribution and policy regionalisation are not well explained in the literature. In fact, many empirical patterns relating to fiscal decentralisation and inter-regional redistribution remain unexplained (Rodden 2009, Beramendi 2012). This is an important question since there is substantive variation across countries on the levels of vertical (inter-personal) and horizontal (inter-regional) redistribution.

Following the approach of the so-called second generation fiscal federalism literature (Rodden and Wibbels 2002; Rodden 2010) we can think about the processes of regionalisation and decentralisation of redistribution being not a natural event but the result of bargaining among political parties (Beramendi, 2012). The literature has extensively discussed how political incentives and electoral goals play a crucial role in explaining the design of redistributive systems (Wibbels 2005). However, departing from explanations based on structural factors, an institutional explanation with a well-defined political mechanism is needed to understand variation in redistributive outcomes across multiparty democracies.

The previous work by Bolton and Roland (1997), Alesina and Spolaore (2003) and Beramendi (2007) puts at the centre of the analysis the relation between distributive outcomes, inequality and political and fiscal decentralisation. The main insight of this research is that to account for decentralisation of redistribution it is necessary to understand how the territorial distribution of income shapes individual preferences. More recently, Beramendi (2012) contends that the relationship between regional inequality and decentralisation of redistribution is contingent on the balance

of political power between the centre and the regions. In those countries with centrifugal political representation, where territorial interests have a political voice, higher levels of regional inequality should imply greater decentralisation of redistribution.

However, the executive in many parliamentary democracies is often not a unitary actor. In parliamentary democracies coalition and minority governments are the norm rather than the exception. Unfortunately, the literature on the political economy of intergovernmental transfers has made extensive use of electoral competition models that assume unitary incumbents (Dixit and Londregan 1996). Notwithstanding, many countries that have seen remarkable processes of regionalisation of public policy in recent years are precisely parliamentary democracies. This is the case of countries such as Spain, Italy and Belgium. And, of course, the regional identity dimension of party competition is highly politically salient in those countries. Therefore, it seems necessary to provide more nuanced political mechanisms that take into account both the economic fundamentals and the political incentives that drive such processes.

1.3 The Argument: 2nd Dimensional Politics in PR systems

The main argument of this dissertation builds on previous research that has highlighted the importance of coalition politics in parliamentary regimes with multiparty PR systems (Iversen and Soskice 2006; Persson et al 2007). That is, in countries with strong party discipline and where the incumbent is subject to a vote of confidence from the legislature. Very prominent recent studies in the political economy literature have predicted higher levels of inter-personal redistribution under proportional electoral systems (Austin-Smith 2000; Iversen and Soskice 2006). Thus, the common wisdom in the literature at the time of writing is that PR democracies are more redistributive than majoritarian ones, no matter what. There are, in fact, three main groups of explanations

that deal with the alleged "left-bias" of PR systems and sustain this conventional wisdom.

First, Persson et al (2000, 2003) argued that PR systems should favour universal social spending programmes, whereas majoritarian systems should favour targeted programmes. Second, Iversen and Soskie (2006) argued that in PR systems the middle income voters are less afraid of being expropriated by the poor and therefore the commitment problem from which they suffer in majoritarian countries is alleviated. Thus, in PR systems the dynamics of coalition politics should favour the coalition between the poor and the middle-income voters. Finally, more recently, Rodden (2011) has proposed a political geography argument according to which the distribution of voters across districts crucially shapes redistribution by affecting who it is the relevant median income voter. Given that, one could be surprised to read that I am proposing a mechanism that clashes with many of the existing explanations. Note, however, that my argument does not run contrary to those explanations, but instead argues that when politics in PR systems are multidimensional the positive effect of PR is likely to disappear. In that sense, it offers a significant qualification to the existing literature.

It is important to remark that the literature until now has investigated the redistributive implications of a second dimension in majoritarian countries by focusing on the consequences of "issue-bundling" by political parties and the resulting "forced-choice" by voters (Roemer 1998, Rodden and De la O 2008, Huber and Stanig 2007). However, those arguments seldom apply in multiparty PR systems in which voters are less constrained when facing a vote choice since the menu is usually broader. In fact, we know significantly less about the way in which a second dimension can affect electoral competition in PR multiparty democracies and subsequent redistributive outcomes. That is why there is a need to advance the literature by developing a new argument that combines the possibility of electoral `heresthetical manoeuvres´ in the hands of parties and the importance of coalition politics in PR systems.

Rather disappointingly, the standard framework in the comparative political economy literature assumes one-dimensional political competition when explaining the nature of redistributive outcomes in advanced democracies. Iversen himself (2006) summarised the dilemma in the following way: "*Distributive politics is inherently multidimensional because a pie can be divided along as many dimensions as there are political agents vying for a piece. It is therefore hard to understand why politicians should constrain themselves to contest a single policy instrument such as the proportional tax/ flat-rate benefit in the Meltzer-Richard model*". Therefore, I consider the Meltzer and Richard (1981) model as the null hypothesis, or framework, against which I present an alternative hypothesis. It will be recalled that in the Meltzer and Richard model, where voters cast their vote simply according to their position on the income distribution scale, inequality should be the main determinant of redistributive outcomes. However, as I will show empirically in subsequent chapters, on top of inequality the salience of the territorial dimension is a crucial determinant of the dynamics of redistribution.

More specifically, my alternative hypothesis is guided by the following logic: in those parliamentary democracies in which the territorial identity cleavage is salient, the nature of redistributive conflicts is better described as a trade-off between the levels of inter-personal redistribution and the levels of regionalisation of public policy. From that perspective the salience of the territorial-identity dimension plays a fundamental role in two different ways: (i) it can be used as an *electoral weapon* at the electoral stage, especially by the right-wing and regionalist parties; and (ii) it creates *new opportunities for coalitions* in the legislative stage where parties trade-off inter-personal redistribution and regionalisation of public policy. Most importantly, both reasons can bring "bad news" for the left-wing parties in PR systems: a greater salience of the 2nd dimension can lead to a division for the left because of the majority splitting property of heresthetics, and the existence of a second dimension can open up new legislative

coalitions for the right at the legislative stage. Therefore, I argue that the "*left-bias*" of PR systems vanishes once the territorial-identity cleavage is politically activated and salient.

In the theoretical chapter that follows, I will develop a formal model that incorporates an electoral and a legislative stage. The crucial mechanism that relates both stages are the strategies of political parties, which are defined on two separate dimensions: preferences for inter-personal redistribution, or the left-right dimension more broadly, and preferences for the regionalisation of public policy that refers to the provision of regional public goods. I will argue that parties strategically prime the territorial dimension at the electoral stage depending on the political geography of voters. The crucial intuition being that both nationwide and regionalist parties prime the territorial-identity dimension in order to attract voters who otherwise would not vote for them. But, most importantly, the left-party will suffer an electoral dilemma because of the salience of the territorial-identity cleavage and the geographical distribution of voters. Hence, the priming by political parties of the salience of territorial cleavage will affect the seat shares of parties in parliament and the subsequent legislative bargaining game.

Note that voters might cast their vote not only in terms of preferences for inter-personal redistribution but also in terms of preferences over the regionalisation of public policy. For example, poor individual members of the majority group - but who have strong preferences against the provision of territorial goods - can vote for the right-wing party if this party is closer to them on the second dimension. One of the crucial ingredients here will be the importance of the political geography of voters. Hence, parties will need to address this by a political calculus in which they balance the benefits and costs of priming the territorial-identity dimension depending on the political geography. The contribution here is threfore to revisit the old heresthetics mechanism in order to integrate it within a political geography argument in PR multiparty systems. The key ingredient, though, is that the right

party can improve its electoral success by dividing the poor members of the majority group across districts.

Once in the legislative, coalition or minority governments reflect the preferences of more than one party. Therefore, redistributive outcomes can be analysed as policy outcomes that are the result of legislative bargaining processes (Baron and Ferejohn, 1989). However, when a second dimension is taken into account the bargaining power of parties in the legislative is distorted by the existence of this new dimension. And this is what enables regionalist parties to extract greater regionalisation of public policy as a side payment and alter the nature of redistributive outcomes. That is, parties in parliament bargain over the provision of both inter-personal redistribution and the regionalisation of public policy. Until now, the role of regionalist parties at the legislative stage has been neglected by the literature. In fact, more broadly, the role of two-dimensional legislative bargaining has been seldom explored. But note that the presence of regionalist parties in parliaments is important because they can open up the possibility of new legislative coalitions in which the pie to be divided has multiple dimensions. That being the case, the right-wing party will also benefit from the legislative salience of the 2nd dimension.

Admittedly, all such elements substantially increase the complexity of the analysis but one should bear in mind that in many multiparty PR parliamentary democracies the territorial and identity cleavages are salient. In countries such as Italy, Spain, Belgium, Ireland and Germany the territorial-identity dimension clearly plays a crucial role. And most importantly, this plea for realism opens up the possibility for an important alternative hypothesis to hold*:* when a territorial-identity dimension is salient, it is no longer true that PR systems are more redistributive. The argument being, again, that a greater salience of the second dimension is likely to impose severe electoral dilemmas for the left-parties at the electoral stage and greater opportunities for the right to form new coalitions at the legislative stage. Therefore, in both stages a greater salience of the territorial dimension can have

negative redistributive consequences. That is the main contribution of the present dissertation: to highlight that when second-dimensional identity politics are salient, the effect of PR is muted.

It is true that in parliamentary democracies the electoral stage cannot be separated from the legislative stage since the former determines the subsequent bargaining power of political parties in the post-electoral coalition bargaining process (Austin-Smith and Banks, 1988). That is the main reason why I model my argument incorporating both stages: first characterising the electoral stage in which the electoral priming of the second dimension is a strategic choice variable in the hands of political parties and is used as an electoral weapon; and secondly, describing the legislative stage in which two-dimensional legislative bargaining occurs. In other words, the ambition of the dissertation is the integration of parties' preferences and strategies into an analysis that includes both an electoral and a legislative stage to explain redistribution in parliamentary democracies. Most importantly, the integration of both stages will enable me to discuss some of the trade-offs that parties can suffer when considering the two stages. For example, I will discuss how the right-wing parties can benefit from a greater salience of the second dimension at the electoral stage but suffer *a posteriori* from an excessive legislative salience of the territorial-identity cleavage –if it limits the ability to form legislative coalitions.

Let me conclude this introduction by emphasizing some key points. First, it is important to remark that by focusing on the strategies of political parties I follow a standard rational choice institutionalism approach (Weingast, 2001). In other words, my focus is on the strategic behaviour of political parties, so that "*the crucial link between institutions, as contextual constraints, and outcomes, as consequences of collective choice, is behaviour*" (Diermeier and Krehbiel, 2003). Therefore, I contend that the crucial behaviour to explain redistributive outcomes is the one of political parties and, more precisely, their strategies in terms of manipulating the salience of the territorial-identity dimension.

From this perspective, I regard parties' electoral and legislative incentives as the true engine of political change (Riker 1986, Shofield 2000).

Second, PR is important for my argument as long as it contributes to opening up the dimensionality of the political space and, hence, enables second-dimensional politics to have a negative effect on redistribution. Note, however, that I regard the electoral system as exogenous and as such a contextual constraint that amplifies the relationship between the cleavage structure and the nature of political competition. Therefore, I consider the dimensionality of the political space not endogenous to institutions but conditioned by them. Thus, the ultimate cause driving the `heresthetical mechanism´ are the electoral incentives of political entrepreneurs. In other words, I am arguing that in PR systems the second-dimension electoral incentives are likely to be translated into lower redistribution through post-electoral coalition politics. While in majoritarian systems second dimensional electoral incentives are translated into policy through ex-ante "issue-bundling" by political parties (Roemer, 1998). From that perspective, another one of the key contributions of this dissertation is to analyse the conditions under which parties have electoral incentives to increase the salience of the 2nd dimension in multiparty PR systems.

Finally, I acknowledge that the argument developed here shares many features with recent work on the interaction between the religiosity cleavage, the electoral system and the role of Christian-Democratic parties (Rodden and De la O 2008, Kersbergen and Manow 2009, Iversen and Soskice 2009, Kalyvas and Kersbergen 2010). The argument of Iversen and Soskice (2009), for example, is also contingent on different institutional configurations. According to their explanation, Scandinavian countries have avoided high levels of inequality and growing insider-outsider divisions by developing a combination of investment in general public goods and active labour market policies. On the other hand, continental European countries with strong Christian-democratic parties have implemented different

social welfare policies, becoming more moderate in the process and "abandoning their weakest constituencies".

1.4 The Plan of the Dissertation

The objective of this dissertation is threfore to investigate to what extent the salience of the territorial-identity dimension affects redistributive outcomes in parliamentary democracies. The dissertation is divided into two main parts: theoretical and empirical. The former refers to the theoretical chapter in which I discuss the foundations of the argument sketched here. On the other hand, the latter refers to three different chapters that empirically test the key verifiable implications of the theoretical model. Significantly, I test the implications of the argument at three different levels: the macro level (Chapter 4), the meso-level (Chapter 5) and the individual-level (Chapter 6). I now turn to a brief discussion of the main objectives and approaches in each of the following chapters.

In chapter 2 I develop a formal model that illustrates the relationship between heresthetics and redistribution in parliamentary democracies with multiparty systems. The aim of the model is to illustrate the way in which the salience of the territorial-identity dimension can affect redistributive outcomes in multiparty PR systems. In order to do so, the model considers both an electoral stage and a legislative stage. But most importantly, both voters and parties are assumed to have well-defined preferences over a two-dimensional space that defines fiscal choices. Therefore, parties are assumed to bargain over the provision of inter-personal redistribution and the degree of regionalisation of public policy. The theoretical model provides two main contributions: (i) it shows under what conditions the right-wing and regionalist parties will have electoral incentives to emphasise the territorial dimension of party competition; and (ii) it illustrates how the post-electoral legislative bargaining game is also affected by the 2nd dimension and the conditions under which

redistributive and non-redistributive coalitions can emerge in equilibria.

The empirical part of the dissertation begins in Chapter 3 with a brief discussion of the empirical implications of the theoretical model. Next, in Chapter 4 I start exploring the relationship between the salience of the 2nd dimension and the macro-level redistributive outcomes in 18 parliamentary democracies. In this chapter I focus on the legislative bargaining stage and I investigate the way in which two-dimensional coalition bargaining affects the two types of fiscal choices discussed in the theoretical model: inter-personal redistribution and the regionalisation of public policy. Most importantly, this chapter documents a positive effect of the legislative salience of the territorial dimension on the levels of regionalisation of public policy and a robust negative effect on income based redistribution through coalition politics. It also documents how the positive effect of PR on redistribution vanishes when the second dimension is highly salient.

Chapter 5 goes one level down to the meso-level and focuses on party strategies. Notwithstanding, the set of countries under study is the same as that in the macro-level chapter: 18 OECD parliamentary democracies. This chapter refers to the electoral stage and explores the conditions under which parties emphasise the territorial dimension throughout elections. The chapter investigates the main implications of the theoretical model with respect to political parties' strategies. Arguably, this chapter provides the first test in the literature for the electoral heresthetics mechanism from a comparative perspective. On the one hand, it analyses the economic and institutional conditions under which political parties increase the salience of the territorial dimension. As expected, proportionality and higher levels of ethno-cultural diversity are shown to be associated with a greater salience of the 2nd dimension. But most importantly, the chapter also documents the hereshetics mechanism at the party-level.

Chapter 6 is the final empirical paper in this dissertation and it focuses on how the electoral salience of the territorial-identity dimension affects individual preferences. To illustrate the effects

of the second dimension on individual preferences it targets a single country, Spain, in which the territorial dimension of political competition plays obviously a very prominent role. This chapter exploits regional variation within Spain, with a high quality dataset, to uncover how the salience of the territorial dimension affects individual preferences for inter-regional redistribution. Specifically, it analyses the effects of the second dimension on preferences in two ways. First, by exploring how cross-regional variation in the salience of the territorial dimension conditions the relationship between partisanship and preferences. Afterwards, by investigating how the salience of the regional identity cleavage has affected the formation of preferences within a single region, Catalonia, in which the territorial dimension has escalated to unprecedented levels.

Chapter 7 concludes with a summary of the dissertation and a brief reflection on the importance of the results obtained. The conclusion also addresses some policy-implications, especially in relation to current debates regarding political integration at the EU level and some of the trade-offs that are likely to emerge between diversity and redistribution once the electoral incentives of political parties are taken into account. As previously mentioned, this dissertation brings some "bad news" that I believe is important to take into account. Even if we choose the institutional setup that has been argued to be most pro-redistributive –PR systems in parliamentary democracies–, the likelihood that this setup will be affected by second-dimensional based electoral incentives that distort the nature of redistributive outcomes is high. However, I hope that such a "*pessimistic view*" will not stop the reader at this point. On the contrary, I hope that the reader is now convinced of the importance of providing a more nuanced understanding of the complex relationships between political competition and redistribution.

"Theories of elections and theories of legislatures have developed independently of one another. This is unfortunate because, inter alia, voters are interested in policy outcomes, not policy promises. And policy outcomes are determined within an elected legislature that typically compromises representatives of several districts or political parties"
(Austin-Smith and Banks, 1988)

CHAPTER 2. A MODEL OF HERESTHETICS AND REDISTRIBUTION IN PARLIAMENTARY DEMOCRACIES

2.1 Introduction

In this chapter I present a formal model that illustrates the redistributive effects of the territorial-identity dimension of party competition in parliamentary democracies with multiparty systems. My analysis is based on recent models developed by Levy (2005), Iversen and Soskice (2006) and Ticchi and Vindigni (2010). The main objective of the model is to discuss the way in which a salient territorial-identity cleavage that structures political competition can affect both the electoral stage and also the legislative stage. However, the main novelty is the introduction of a heresthetics mechanism: political parties strategically manipulate the dimensionality of the political space in order to form stronger

coalitions and divide existing majorities. But they do so depending on the existing electoral geography of voters. Subsequently, parties in parliament bargain over redistributive outcomes according to their preferences and coalition bargaining power.

In the first stage of the model, the electoral stage, political parties L (left-wing), R (right-wing) and E (regionalist) compete to obtain the greatest share of seats in the elections. Parties are able to emphasise the electoral salience of the 2nd dimension by making explicit what their views are with respect to redistribution and the regionalisation of public policy. Using Riker's words, they compete by "*structuring the world so they can win*". Parties are key political actors that are able to manipulate the salient dimensions of the political space by priming the relative salience of the dimensions of party competition (Riker 1990). They do so through agenda control, by the way in which they frame their messages in the media, and so on. In other words, politicians use their agenda-setting power and campaigns to accentuate the importance of particular issues to the public. Therefore, I will describe the conditions under which parties are able to mobilise voters by increasing the salience of the territorial dimension.

In the argument developed here, the right party will have electoral incentives to increase the salience of the 2nd dimension in order to attract low-income voters who are members of the majority group in unified districts. However, nothing prevents the left party from reacting strategically. The left can also derive electoral benefits from increasing the salience of the territorial-identity dimension if the rationale is to preserve the support of their core voters. But the left will suffer an electoral dilemma regarding the salience of the territorial-identity dimension since this will split its electoral base. On the other hand, regionalist parties can attract voters by increasing the salience of the territorial dimension in identified districts. Therefore, both nation-wide and regionalist parties prime the 2nd dimension to attract voters that otherwise would not vote for them. But the geographical distribution of voters will impose constraints on

parties' strategies. I will derive the conditions under which each party primes the territorial cleavage, to show how it can be used as an electoral weapon by the right and the regionalist parties.

In the second stage, that of legislative bargaining, parties bargain in parliament over the provision of two fiscal choices: inter-personal redistribution and the provision of regional public goods. The legislative coalition in equilibria will form according to parties' bargaining power and their preferences on the two dimensions. The preferences of political parties in the legislative are defined by the previous strategies of parties at the electoral stage. Therefore, the redistributive coalition that in equilibrium obtains a legislative majority implements fiscal choices in a two-dimensional policy-space. Following existing literature, in the second stage I assume a fixed bargaining protocol with respect to the legislative bargaining process (Baron and Diermeier 2001, Cheibub 2007). A fixed bargaining protocol implies that the sequence of formateurs corresponds to the seat shares of parties in the legislative, which is an assumption robust to the empirical findings in the coalition governance literature.

Overall, the key mechanism linking the electoral and the legislative stages is the priming of the 2nd dimension done by political parties at the electoral stage. The assumption being that the electoral policy positions also define the subsequent legislative preferences. This implies full-commitment by the political parties. That is, parties will remain close to their policy proposals in the posterior legislative bargaining game. Admittedly this is a fairly restrictive assumption since parties can modify their policy positions once in parliament (Schofield and Sened, 2006). However, the extent to which parties can modify their policy preferences in the legislative stage is in any case bounded by their previous electoral policy positions.

The model builds intensively on the framework developed by Levy (2005, 2010) but instead of a pre-electoral coalition game here I construct a model in two steps that incorporates both an electoral and a legislative stage. Although Gilat Levy (2005) constitutes a very useful benchmark for thinking about effects of a

second dimension of political competition on redistribution, it suffers from one severe limitation. The model developed by Levy is based on an equilibrium concept that relies on pre-electoral coalitions. However, political parties can have very low incentives to engage in pre-electoral coalitions or very high ones depending on the nature of the electoral system. Importantly, in countries with multiparty PR systems small parties have fewer incentives to engage in pre-electoral coalitions. In fact, we rarely observe regionalist parties forming pre-electoral coalitions. Thus, post-electoral coalition bargaining plays a prominent role in multiparty PR systems.

2.2 Behavioural Postulates

2.2.1 The Political Geography of Voters

First, I introduce the 2nd dimension of political competition by assuming that individuals' preferences are a function of their regional identity (Levy, 2005). This is possible as long as individual voters differ on two fundamental dimensions: income and identity. I assume that the non-regionally identified voters constitute a majority and the regionally identified voters a minority of the whole population. The difference between both groups is that members of the majority identify themselves with their income group whereas members of the minority group identify themselves with their regional identity group. The majority group is divided between the poor and the rich voters. From here on the population size is normalised to 1.

Assumption 1: $N_L + N_R + N_E = 1$ and $N_L + N_R > \frac{1}{2}$

Assumption 2: $\frac{1}{2} > N_L > \max(N_R, N_E)$

To be realistic, I assume that low-income voters members of the majority group, N_L , are the largest group of voters, and that the vast majority of them are geographically dispersed across what I refer to as `unified districts´. High-income voters members of the majority group, N_R , are also located in unified districts. Hence, I assume that unified districts are populated only by low-income and high-income voters members of the majority group. For simplicity I assume that the distribution of poor and rich voters across unified districts is the same across all districts. Since I want to focus on the effects of regional identity it is safer to assume that all unified districts have the same distribution of poor and rich voters.

On the other hand, I assume that those individuals who are members of a minority identity group, N_E , are geographically concentrated in what I refer to as `identified districts´. However, I assume that a fraction of low-income and high-income members of the majority group also reside in identified districts. Hence, in identified districts there are three types of voters: low and high-income voters who are members of the majority group and minority voters that identify with their regional identity group. Most importantly, I assume that regionally identified voters associate themselves with their regional identity group instead of their income group. Hence, what matters for regionally identified voters is not their individual income but the average regional income (Shayo, 2009).

Thus, overall there are three general types of individuals in the population: the low-income, the high-income and the regionally identified voters that belong to some regional identity group. Now I can define the income distribution among those groups. I define as y_P the income of the low-income voters in unified districts, as y_R the income of the high-income in unified districts and as y_E the average income of voters in regionally identified districts. The overall average income in the population is y_{Av}.

Assumption 3: $y_R > y_{Av} > y_P$

Note also that I do not make any assumption regarding the income of the minority and regionally identified group. It might be the case that the regional minority group is a relatively rich group, and hence the average regional income y_E is greater than the national average income y_{Av}. But it could also be that the minority group is geographically located in a relatively poor area. Often regionalist parties represent relatively rich minorities in a country. This is the case of CiU and PNV in Spain or the Lega Norte in Italy. But obviously there are also interesting cases in which the identity minority group has an average income below that of the national average. Thus, it seems reasonable to accept either argument.

2.2.2 The Fiscal Policy-Space: Redistribution and Regional Policy

The theory developed here aims to explore the effects of 2nd dimension regional identity politics on redistribution. In order to achieve this I decompose public expenditure by analysing the provision of inter-personal redistribution and the provision of regionalised public policy. This distinction is useful to distinguish inter-personal redistribution versus the provision of regional public goods. Levy (2005) described a very useful two-dimensional policy space to analyse the public provision of education. I will make use of the same policy-space but to explain a different redistributive trade-off: the one between inter-personal redistribution and the regionalisation of public policy through the provision of regional public goods.

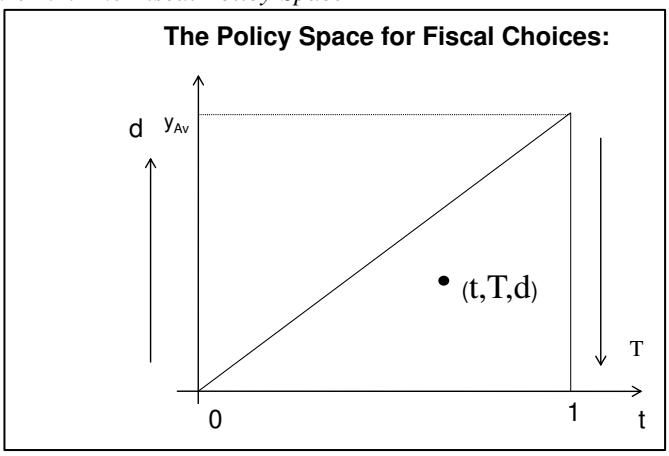
Note that I am abstracting from the question of who is the actual provider of those regional public goods. It could be either the national government or a sub-national government. Most likely, though, such territorial goods will be administered by a

regional government. Therefore, what I refer to as the provision of regional public goods should be broadly understood as territorial spending at the regional level. The crucial assumption, however, will be that those individuals who are members of an identity minority group will value more the provision of such regionalised goods.

Since the population size is normalised to 1, the government faces a balanced budget constraint according to which $ty_{Av}=T+d$. That is, a proportional tax rate (t) is used to fund either overall redistribution with lump-sum transfers (T) or the provision of regional public goods (d). For the sake of simplicity I am assuming that the provision of territorial goods is equal across all regions. Also, note that I am not assuming any other expenditure like office rents. On the revenue side, total revenues are equal to ty_{Av} since a proportional tax rate applies to all individuals and the budget constraint is balanced.

I can now represent the policy space (t,T,d) on a two-dimensional graph (see Levy 2005 for a full discussion). The horizontal axis in Figure 2.1 is the proportional tax rate, whereas the vertical axis represents the amount of regionalisation of public policy. Since the budget constraint relates the fiscal choices (t,T,d), any allocation (t,d) implies a given level of overall inter-personal redistribution (T). For example, allocations on the horizontal axis with $t\geq 0$ imply a positive amount of inter-personal redistribution without provision of regional public goods. Thus, any point in the policy-space (t,d) also represents a redistributive allocation for inter-personal redistribution (T) and territorial goods (d).

Figure 2.1: The Fiscal Policy-Space



In other words, the problem of choosing among three policy outcomes (t,T,d) is reduced to choosing a feasible allocation in the policy-space (t,d), as in Levy (2005). A feasible redistributive allocation will be any combination of fiscal choices in the policy-space satisfying the budget constraint, and this is why the feasible policy-space looks like a triangle. In the lower-east corner there is full taxation $(t=1)$ and all revenues are devoted to inter-personal redistribution. In the upper corner there is also full taxation but all revenues are devoted to funding territorial goods ($d=y_{Av}$). And in the lower-west corner there is no taxation, $t=0$, and no provision for any form of redistribution $(T=0,d=0)$.

2.2.3 Parties' Preferences in a Two-Dimensional Space

Now I introduce the political parties and their preferences. As in standard citizen-candidates models, I assume that parties represent the preferences of the three groups that I described before (N_L, N_R, N_E). The set of political parties is denoted by (L, R, E), where L is the left-wing party, R is the right-wing party and E is the regionalist party. Political parties bargain in parliament over two types of redistribution: overall redistribution and the provision of regional public goods. Both nation-wide and regionalist political parties have well-defined preferences over the two dimensions of political competition. Thus, I specify the utility functions for the political parties in the following way (Levy, 2005):

$$\text{Party } L: \quad u_L(t,T,d) = y_P(1-t) + T + s_L v(d) \qquad (1)$$

$$\text{Party } R: \quad u_R(t,T,d) = y_R(1-t) + T + s_R v(d) \qquad (2)$$

$$\text{Party } E: \quad u_E(t,T,d) = y_E(1-t) + T + s_E v(d) \qquad (3)$$

Following Levy (2005), I assume that $v(d)$ is a concave utility function with regular properties, that is with $v'(d) > 0$ and $v''(d) < 0$. The utility functions are quasi-linear, a property that will be useful later on when deriving the legislative equilibria. But the most important feature is that I am introducing further heterogeneity than traditional political economy models a-la Meltzer and Richard (1981).

Most importantly, the s_i parameter, which is assumed to be a continuous one, represents how strongly political parties derive

utility from the provision of regional public goods (d). The rationale for introducing the s_i parameter is that political parties differ not only in their policy preferences on the inter-personal redistributive dimension but also in terms of their preferences over the regionalisation of public policy.

Thus, the parameter s_i is my main parameter of interest since it represents how salient the territorial-identity dimension of party competition is for each party. A greater s_i implies that a given party i has more intense preferences over the regionalisation of public policy and that the 2nd dimension becomes relatively more important for that party. In the sense that a party is willing to sacrifice more on the inter-personal redistributive dimension in order to obtain its preferred outcomes on the regionalisation dimension. Hence, the notion of salience is closely related to a price interpretation. In other words, in relative terms how salient the second dimension is for each party will be determined by the marginal rate of substitution between policy outcomes (Humphreys and Garry, 2000).

First, I assume that the regionalist party E derives positive utility from the provision of regional public goods and therefore $s_E > 0$. When a regionalist party wants to put forward a reform to increase the level of regionalisation of public policy it emphasises the salience of the 2nd dimension at the electoral stage and increases its legislative preferences for the provision of regional public goods. In terms of our model this is reflected by an increase in the salience parameter: a greater s_E implies more political priming at the electoral stage and greater legislative preferences for the regionalisation of public policy. Hence, the more salient the territorial-identity dimension, the more willing the regionalist party is to sacrifice overall inter-personal redistributive in order to obtain its preferred policy on the regionalisation dimension.

Second, nation-wide parties L and R can derive either positive or negative utility from the provision of regional public goods. That is, the parameters s_L and s_L can be either positive (when they obtain positive utility and are in favour of some degree of regionalisation of public policy) or negative (if they derive negative utility and are actively opposed to the provision of regional public goods). Note that oftentimes parties in European democracies increase the salience of the conflict over territorial issues by expressing their views against further provision of territorial goods and by highlighting the need for nation-wide solidarity. This has been a common feature across the Italian left but also among the Spanish right. Thus, it could be the case that both are equally opposed to the provision of regional public goods, in which case $s_L = s_R < 0$.

On the contrary, in some countries we observe a left party that is less opposed to the regionalisation of public policy than the right-wing party, or even moderately in favour. But in any case, note that the absolute value for the salience parameter s_i captures the extent to which each party attaches weight to and emphasises the regionalisation dimension. On the other hand, the position of parties, reflecting positive or negative views on the territorial dimension, is captured by the sign of the parameter. Interestingly, the salience component will be crucial at the electoral stage, whereas the position component will be much more important at the electoral stage. In fact, the tension between these the two components will be related to a fundamental trade-off between the electoral and the legislative stages.

2.3 The Electoral Stage

2.3.1 Voters' Preferences

Departing from traditional citizen-candidate models I assume that the salience parameter s_i varies across voters within each group (N_L, N_R, N_E). That is, different voters within each group have different views with respect to redistribution and regional policy and the weight they attach to each. Hence, one can imagine voters who are members of the majority group, low-income and actively opposed to regionalization of public policy, and other members of the same group that instead support greater provision of regional public goods.

Specifically, I assume that low-income voters who are members of the majority group in unified districts have the following utility function: $u_p(t,T,d) = y_P(1-t)+T+s_i v(d)$ Whereas high-income voters who are members of the majority group in unified districts are assumed to have the following utility function: $u_R(t,T,d) = y_R(1-t)+T+s_i v(d)$. Depending on the distribution of the s_i parameter within the group of low-income individuals in unified districts, some of them will have incentives to switch and vote for the right party if $u_P(t_R^*, T_R^*, d_R^*) > u_P(t_L^*, T_L^*, d_L^*)$. This inequality is satisfied for a fraction λ of low-income individuals that attach high enough salience to the territorial cleavage so that they are better-off by voting for the right party. Similarly, depending on the distribution of the s_i parameter within the group of high-income voters in unified districts, a fraction α will have incentives to switch and vote for the left party if the inequality $u_R(t_L^*, T_L^*, d_L^*) > u_R(t_R^*, T_R^*, d_R^*)$ is satisfied.

In the electoral competition game that follows I work under the scenario in which the former inequality is satisfied for a fraction λ of voters but $\alpha=0$. In other words, I will be assuming that high-income voters in unified districts always vote for the right party. On the other hand, it will be recalled that in `identified districts´ there are three major groups of voters: low-income and high-income voters who are members of the majority group and regionally identified voters. In this case, I will work under the scenario in which low-income and high-income members of the majority group can switch to the regionalist party but also voters of the latter can abandon it and return to nation-wide parties.

2.3.2 Electoral Competition and the Salience of the 2nd Dimension

In this section I propose a simple model of electoral competition between political parties L, R and E. The purpose is to illustrate the way in which the territorial-identity cleavage affects the electoral incentives to mobilise voters on the territorial dimension. Parties play a simultaneous game in which they optimally choose the electoral salience they attach to the territorial dimension in order to attract voters. Therefore, s_E, s_L and s_R are the choice variables of interest that characterise parties' strategies at the electoral stage. The key feature of the model is that the seat share for each party is a function of the geographical distribution of voters and the electoral salience that parties attach to the second dimension.

First, I describe how the seat shares for each party depend on parties' strategies and the distribution of voters across districts:

Seat share for party L :

$$V_L(s_L, s_R, s_E) = \rho n_u \left[N_L(u)\left(1-\lambda(s_R, s_L)\right)\right] + \rho n_I \left[N_L(I)\left(1-\delta_L(s_L, s_E)\right) + \frac{1}{2} N_E(I)\left(\delta_E(s_E)\right)\right] \quad (4)$$

Seat share for party R :

$$V_R(s_L, s_R, s_E) = \rho n_u \left[N_R(u) + N_L(u)\lambda(s_R, s_L)\right] + \rho n_I \left[N_R(I)\left(1-\delta_R(s_R, s_E)\right) + \frac{1}{2} N_E(I)\left(\delta_E(s_E)\right)\right] \quad (5)$$

Seat share for party E :

$$V_E = \rho n_I \left[\begin{array}{l} N_E(I)\left(1-\delta_E(s_E)\right) + \\ N_L(I)\delta_L(s_L, s_E) + N_R(I)\delta_R(s_R, s_E) \end{array} \right] \quad (6)$$

Where $\lambda(s_R, s_L)$, $\delta_E(s_E)$, $\delta_R(s_R, s_E)$, and $\delta_L(s_L, s_E) \in [0,1]$

In Equation (4) the seat share for party L is a function of the number of low-income voters who vote for the left in unified districts and the number of low-income voters that vote for the left in regionally identified districts. But the seat share for the left also depends on the number of voters who abandon the regionalist party $1/2N_E(I)(\delta_E(s_E))$ in identified districts. The proportionality of the electoral system is captured by the parameter ρ. If $\rho = 1$ the electoral system is one of perfect proportionality and votes translate into seats on a one-to-one basis.

Crucially important, $\lambda(s_R, s_L)$ is the fraction of low-income voters in unified districts that vote for party R depending on parties' strategies on the 2nd dimension. Note that if $\lambda = 0$ not a single low-income voter is attracted by party R. Thus, the fraction $\lambda(s_R, s_L)$ captures the extent to which the strategic priming of the 2nd dimension is advantageous for the right-wing party. On the other hand, $\delta_L(s_L, s_E)$ is the fraction of low-income voters that abandon the left and vote for the regionalist party in identified districts. This is the electoral cost of priming the territorial dimension for the left-wing party –namely, the loss of voters in regionally identified districts. Therefore, when choosing the optimal level of priming of the territorial cleavage the left party needs to balance out the trade-off between retaining core voters in unified districts versus the risk of losing voters in identified districts.

Similarly, in Equation (5) the seat share for party R is a function of the number of votes in unified and identified districts. I am assuming that in unified districts all rich voters, $N_R(u)$, vote for the right-wing party. But as discussed above, a fraction $\lambda(s_R, s_L)$ of poor individuals vote for party R in unified districts. This is the benefit side of priming for party R, the ability to attract members of the majority group with strong preferences with respect to the territorial cleavage. On the other hand, a

fraction $\delta_R(s_R, s_E)$ of rich voters abandon the right and vote for the regionalist party in identified districts. This is the cost side of priming the salience of the 2nd dimension for the right-wing party. Therefore, the right-wing party also needs to solve a trade-off and balance the potential gain of voters in unified districts versus the loss of voters in identified districts.

Finally, in Equation (6) the seat share for the regionalist party E depends only on the number of votes it gets in regionally identified districts, where regionally identified voters are geographically concentrated. By increasing the salience of the 2nd dimension the regionalist party can attract a fraction $\delta_L(s_L, s_E)$ of low-income voters and a fraction $\delta_R(s_R, s_E)$ of high-income voters. But also, the regionalist party loses a fraction $N_E(I)(\delta_E(s_E))$ because of excessive priming. I assume that such loss is distributed equally between the left and the right-wing parties. Hence, the trade-off for the regionalist party is driven only by the electoral calculus in regionally identified districts. Specifically, it needs to balance the potential attraction of voters with strong preferences on the 2nd dimension against the potential loss of voters that may abandon the party.

Now, I can describe the functional forms that summarise the cost-benefit implications of the electoral salience of the 2nd dimension. It will be recalled that the fraction of low-income voters attracted by the right-wing party depends on the political priming of the second dimension by both parties L and R. Thus, I assume a particular functional form for $\lambda(s_R, s_L)$ as described in equation (7). The greater the political priming of the 2nd dimension by the right-wing party, the bigger is the fraction of voters $\lambda(s_R, s_L)$. Note that the parameter ϕ_R represents how effective the priming by party R is in attracting low-income voters from party L. On the other hand, ϕ_L represents how effective the priming by party L is in terms of retaining low-income voters in

unified districts. Thus, the greater the priming of the 2nd dimension by the left-wing party, the lower the loss of core voters.

$$\lambda(s_R, s_L) = \phi_R s_R - \phi_L s_L \qquad (7)$$

On the other hand, I assume that a fraction δ_L of low-income voters and a fraction δ_R of high-income voters in identified districts are attracted to the regionalist party E due to the salience of the 2nd dimension. The greater the political priming by the regionalist party, the greater the fractions of voters δ_L and δ_R . Thus, the marginal benefit of priming the 2nd dimension in terms of electoral gains is represented by $\phi_E s_E$ in equations (8) and (9). Note that, for simplicity, I am implicitly assuming that the priming of the 2nd dimension by the regionalist party is equally effective in terms of attracting poor and rich voters in identified districts. However, one possible extension of the model is to relax this assumption and make the elasticity of poor and rich individuals vary depending on income.

Regarding the left and the right-wing parties, the parameters c_L and c_R represent how costly is the priming of the 2nd dimension for the left and the right in regionally identified districts. That is, the electoral cost in terms of lost votes in identified districts is $s_L^2 c_L$ and $s_R^2 c_R$ for the left and the right. Finally, the cost of electoral priming the 2nd dimension for the regionalist party is captured by equation (10), in which the risks of losing votes because of excessive priming is captured by the cost parameter c_E .

$$\delta_L(s_L, s_E) = \phi_E s_E + s_L^2 c_L \qquad (8)$$

$$\delta_R(s_R, s_E) = \phi_E s_E + s_R^2 c_R \qquad (9)$$

$$\delta_E(s_E) = s_E^2 c_E \qquad (10)$$

Where $\phi_E, \phi_L, \phi_R \in [0,1]$

First, I derive the optimal level for priming the electoral salience of the 2nd dimension for the regionalist party E. To solve for s_E^* I need to write down the maximization problem for the regionalist party:

$$Max\ V_E(s_L, s_R, s_E) = \rho n_I \begin{bmatrix} N_E(I)(1-\delta_E(s_E)) + \\ +N_L(I)\delta_L(s_L, s_E) + N_R(I)\delta_R(s_R, s_E) \end{bmatrix}$$

Now, I can simply substitute equations (8), (9) and (10) into the objective function and derive the FOC:

$$\frac{\partial V_E(s_L, s_R, s_E)}{\partial s_E} = -2s_E N_E(I) c_E \rho n_I + \phi_E N_L(I) \rho n_I + \phi_E N_R(I) \rho n_I = 0$$

Rearranging terms I can derive the following expressions:

$$\phi_E N_L(I) + \phi_E N_R(I) = 2s_E N_E(I) c_E \qquad (11)$$

$$s_E^* = \frac{\phi_E (N_L(I) + N_R(I))}{2N_E(I) c_E} \qquad (12)$$

The right-hand side in equation (11) illustrates the marginal cost of priming the salience of the 2nd dimension, whereas the left-hand side illustrates the marginal benefit of

priming the 2nd dimension. Thus, the optimal priming level s^*_E is such that it equalises the marginal benefit to the marginal cost in identified districts. Equation (12) explicitly solves s^*_E. The solution is intuitive, the optimal priming of the 2nd dimension depends positively on how effective the priming ϕ_E is and the number of poor and rich voters in regionally identified districts that are not voting for the regionalist party: $\left(N_L(I)+N_R(I)\right)$. On the other hand, the weight that the regionalist party will attach to the territorial cleavage will decrease when the electoral costs are higher or the number of voters that are already voting for the regionalist party, $N_E(I)$, is high.

Second, I drive the optimal salience devoted by the left party to the territorial cleavage. Recall that the only motivation by the left party to increase the salience of the 2nd dimension is to retain core voters in unified districts that otherwise can be attracted to vote for the right.

Again, to solve for s_L^* I need to write down the maximization problem:

$$Max\ \ V_L\left(s_L,s_R,s_E\right)=\rho n_u\left[N_L\left(u\right)\left(1-\lambda\left(s_R,s_L\right)\right)\right]+$$
$$+\rho n_I\left[N_L\left(I\right)\left(1-\delta_L\left(s_L,s_E\right)\right)+\frac{1}{2}N_E\left(I\right)\left(\delta_E\left(s_E\right)\right)\right]$$

By taking the FOC of the maximisation problem:

$$\frac{\partial V_L\left(s_L,s_R,s_E\right)}{\partial s_L}=\rho n_u N_L\left(u\right)\phi_L-\rho n_I N_L\left(I\right)2s_L c_L=0$$

Now, rearranging terms I can derive the following expressions:

$$n_u N_L(u)\phi_L = n_I N_L(I) 2 s_L c_L \qquad (13)$$

$$s_L^* = \frac{\phi_L n_u N_L(u)}{2 n_I N_L(I) c_L} \qquad (14)$$

The right-hand side in equation (13) illustrates the marginal cost of priming the 2nd dimension for the left whereas the left-hand side captures the marginal benefit. Equation (14) explicitly solves s_L^*. The priming of the territorial cleavage by the left party positively depends on how effective it is in retaining core voter members of the majority group (the numerator), whereas it negatively depends on the number of low-income voters who are voting for the left in regionally identified districts and are at risk of abandoning the party and vote instead for the regionalist party (the denominator).

Note that the 2nd dimension would not exist if the left retained both $N_L(u)$ and $N_L(I)$ won the elections by obtaining a majority of seats. However, the 2nd dimension has the fundamental "heresthetical" property of dividing the existing majority, who are the low-income voters who are members of the majority group. Moreover, because of the geographical distribution the divide runs in two opposite directions. On the one hand, low-income voters who are members of the majority group in unified districts can be attracted by the right-wing party, whereas low-income voters who are members of the majority in identified districts can be attracted by the regionalist party.

Therefore, the majority splitting property of heresthetics combined with the electoral geography creates a dilemma for the left-wing party that can only be resolved by choosing one of two options: either (a) to increase the salience of the 2nd dimension to keep the core voters in unified districts and avoid the loss of votes towards the right; or, alternatively, (b) to decrease the salience of the 2nd dimension to keep the voters in identified districts and stop

the loss of votes towards the regionalist party. That is the logic encapsulated in equation (14) that solves the optimal priming of the 2nd dimension for the left party. Therefore, although the 2nd dimension is a losing dimension for the left party, it needs to solve the dilemma by choosing one of the two options.

Finally, I derive the optimal priming by the right-wing party of the electoral salience of the 2nd dimension. It will be recalled that the logic of priming the 2nd dimension for that party is mainly to attract voters that would otherwise vote for the left in unified districts.

$$Max\ \mathrm{V}_R\left(s_L, s_R, s_E\right) = \rho n_u \left[N_R\left(u\right) + N_L\left(u\right)\lambda\left(s_R, s_L\right)\right]$$
$$+\rho n_I \left[N_R\left(I\right)\left(1-\delta_R\left(s_R, s_E\right)\right) + \frac{1}{2}N_E\left(I\right)\left(\delta_E\left(s_E\right)\right)\right]$$

By taking the FOC of the maximisation problem:

$$\frac{\partial V_R\left(s_L, s_R, s_E\right)}{\partial s_R} = \rho n_u N_L\left(u\right)\phi_R - \rho n_I N_R\left(I\right)2s_R c_R = 0$$

Rearranging terms I can derive the following expressions:

$$n_u N_L\left(u\right)\phi_R = n_I N_R\left(I\right)2s_R c_R \quad (15)$$

$$s_R^* = \frac{\phi_R n_u N_L\left(u\right)}{2n_I N_R(I)c_R} \quad (16)$$

The right-hand side in equation (15) illustrates again the marginal cost of priming the 2nd dimension for the right-wing party whereas the left-hand side captures the marginal benefit of increasing the salience of the 2nd dimension. The marginal benefit positively depends on the number of low-income voters in unified

districts that are attracted by the right party depending on how effective the priming is –which is captured by the parameter ϕ_R .

On the other hand, the marginal cost depends on the number of high-income voters voters that abandon the party in identified districts. In other words, the price to pay for the right party to play the "heresthetics card" is to lose a fraction of rich voters in identified districts that are likely to abandon the party and vote for the regionalist party. This is the logic that defines equation (16). Therefore, the right party is better-off at increasing the salience of the 2nd dimension as long as the fraction of voters that it can attract in unified districts is greater than the fraction of voters that it loses in identified districts.

But why will the right party have greater electoral incentives to increase the salience of the 2nd dimension? In order to provide a specific answer to this question I compare the two optimal levels of priming for the left and for the right parties. By rearranging and simplifying equations (14) and (16) we can derive the following inequality:

$$s_R^* > s_L^* \text{ iff } \frac{\phi_R}{N_R(I)c_R} > \frac{\phi_L}{N_L(I)c_L} \qquad (17)$$

Note that even if the marginal benefit of priming the 2nd dimension is the same for the left and the right parties, $\phi_R = \phi_L$, the electoral priming by the right-wing party will be greater as long as $N_L(I) > N_R(I)$. Therefore, since the fraction of low-income voters is greater than the fraction of high-income voters in identified districts the "price to pay" of playing the heresthetics by mobilising voters on the 2nd dimension will be lower for the right. Thus, as long as the rich voters are a minority of the population, the right-wing party will have greater electoral incentives to prime the 2nd dimension in order to attract voters. The right party can increase their electoral share by mobilising voters in unified districts by paying a lower price in identified districts.

Overall, the very simple electoral game discussed in this section shows how the electoral policy platform positions $\left(s_L^*, s_R^*, s_E^*\right)$ of parties are explained by the geographical distribution of voters and, most importantly, by the electoral incentives to exploit the splitting property of heresthetics and divide the members of the low-income group. Specifically, a greater electoral salience of the 2nd dimension imposes a dilemma for the left party by forcing it to choose between two costly strategies. It can stop the right-wing party at the price of risking its electoral base in identified districts or it can decide to maintain its electoral base in identified districts but pay a high price in terms of losing votes in unified districts. Therefore, both the right and the regionalist parties have electoral incentives to attract voters by increasing the salience of the territorial cleavage. By doing that they split the existing group of low-income voters along the basis of a geographical divide given that when the 2nd dimension becomes salient the low-income voters abandon the left and switch towards the right in unified districts, whereas low-income voters switch towards the regionalist party in identified districts.

2.4 The Legislative Stage: Coalition Bargaining

The second stage of the model corresponds to the post-electoral coalition bargaining among political parties that takes place in the legislative. The seat share for each party in parliament is $V_i\left(s_L^*, s_R^*, s_E^*\right)$ and is a function of the electoral game just described. Significantly, I assume that none of the parties have a legislative majority in parliament and therefore a coalition government needs to be formed. That is, if party i and party j form a legislative coalition then $V_i(\cdot)+V_J(\cdot)>1/2$. The legislative coalition implements in equilibrium fiscal choices in the policy-space (t,T,d). I develop a simple legislative bargaining model inspired in the divide-the-dollar game, where the crucial source of heterogeneity is that parties differ both in terms of their preferences on a two-dimensional space and also in terms of the relative weight (salience) they attach to each dimension.

2.4.1 Indifference Curves for Parties in Parliament

But before deriving the legislative equilibria I need to characterise parties' legislative preferences. As discussed above, the key assumption that makes possible the linking of the electoral stage with the legislative stage is to assume that parties' legislative preferences are defined by parties' strategies at the electoral stage. In that sense, I am assuming full commitment by parties to their electoral strategies in the legislative bargaining game. Admittedly this is a restrictive assumption but nonetheless it seems reasonable to assume that parties in parliament are bound by their electoral promises. At the very least, electoral strategies impose a constraint on the extent to which parties can deviate from their preferences once they are in parliament. Therefore, the electoral salience of the

2nd dimension, summarised by $\left(s_L^*, s_R^*, s_E^*\right)$, crucially shapes the indifferences curves of parties in parliaments.

For tractability, from now onwards I assume a specific functional form for the utility function that parties derive from the provision of regional public goods: $v(d) = d^{\frac{1}{2}}$. From equations (1), (2) and (3) I can substitute the budget constraint $ty_{Av} = T + d$ into the utility functions of each political party and I obtain the following indirect utility functions:

$$v_L\left(t, T, d\right) = y_P + t\left(y_{Av} - y_P\right) - d + s_L^* d^{\frac{1}{2}} \qquad (18)$$

$$v_R\left(t, T, d\right) = y_R + t\left(y_{Av} - y_R\right) - d + s_R^* d^{\frac{1}{2}} \qquad (19)$$

$$v_E\left(t, T, d\right) = y_E + t\left(y_{Av} - y_E\right) - d + s_E^* d^{\frac{1}{2}} \qquad (20)$$

It will be recalled that the government faces a budget constraint according to which $ty_{Av} = T + d$. This implies that each of the political parties in parliament have different ideal policy vectors defined over the policy-space (t, d). Thus, I can define an ideal policy-vector $\left(t, d\right)_i^*$ for each party $\left(L, R, E\right)$. For example, if $s_L < 0,\ s_R < 0$ it is easy to see from equations (18) and (19) that L party preferred policy vector is $\left(t = 1, d = 0\right)_L^*$, whereas R party preferred policy vector is $\left(t = 0, d = 0\right)_R^*$. In this case, both parties L and R derive negative utility from the provision of regional public goods so they share a common interest in minimising the supply of regional goods, i.e. $d^* = 0$. However, the left party wants to maximise the provision of inter-

personal redistribution (T) at $t_L^* = 1$, whereas party R prefers the scenario in which all forms of public spending are minimised.

On the other hand, party E preferred policy vector is a function of the regional income, y_E, and the salience of the 2nd dimension, s_E, and will be of the form $(t \geq 0, d \geq 0)_E^*$. If the regionalist party comes from a rich region then it is interested in increasing the proportional tax rate only as a means to fund the provision of regional public goods for a high enough s_E parameter. In this case the regionalist party represents the citizens of identified districts with average income above the country average. Hence, the regionalist party is better-off by increasing the general tax rate only to finance territorial goods but does not want to increase overall redistribution. On the other hand, if the regionalist party comes from a poor region (and $y_E < y_{Av}$) then the regionalist party prefers a combination of policy outcomes in which the tax rate is used to fund both the provision of inter-personal redistribution (T) and the provision of regionalised public goods (d).

Following Levy (2005) very closely, I can graphically represent parties' preferences by drawing the indifference curves for each party in the policy-space (t, d). In order to illustrate the indifference curves I need to derive the marginal rate of substitution between policy outcomes. It will be recalled that the marginal rate of substitution (MRS) is characterised by how salient the 2nd dimension is for each political party (Humphreys and Garry, 2000). For nation-wide parties L and R the marginal rate of substitution (MRS) can be derived from the indirect utility function and obtain the following equations:

$$MRS_{t,d}\left(\text{Party L}\right) = -\frac{\left(y_{av} - y_P\right)}{\left(-1 + s_L / 2\sqrt{d}\right)} \qquad (21)$$

$$MRS_{t,d}\left(\text{Party R}\right) = -\frac{\left(y_{Av} - y_R\right)}{\left(-1 + s_R / 2\sqrt{d}\right)} \qquad (22)$$

The salience of the 2nd dimension shapes the nature of the indifference curves (ICs). When $s_L < 0,\ s_R < 0$ and the salience of the 2nd dimension increases parties are more willing to sacrifice overall taxation (t) in order to lower the provision of regional public goods (d) that they dislike. Figure 2.2 below graphically represents the indifference curves for the left party for different levels of salience of the 2nd dimension when $s_L < 0$. Note that since utilities are quasi-linear the indifference curves look like parallel shifts. But the crucial feature is that the more salient the 2nd dimension is, the flatter the ICs are. The continuous line represents the indifference curves for the left party when the salience of the 2nd dimension is low, whereas the dashed line represents the ICs when the salience is high. Similarly, Figures 2.3 depicts the legislative preferences for party R when $s_R < 0$ with high and low salience of the 2nd dimension. For both parties the ICs look flatter when the salience of the 2nd dimension is higher.

Figure 2.2: Legislative Preferences for L *when* $s_L < 0$

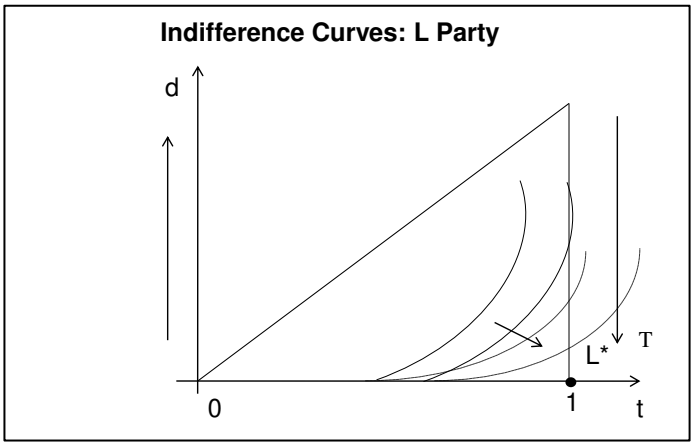
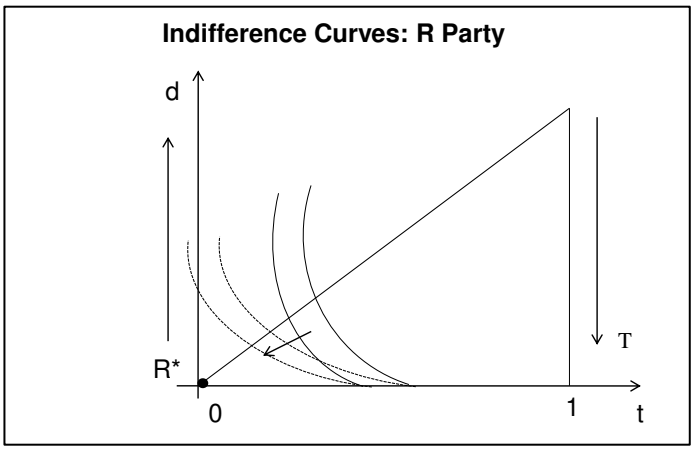


Figure 2.3: Legislative Preferences for R *when* $s_R < 0$



Following the same procedure, I derive the marginal rate of substitution for the regionalist party E. Equation (23) below shows the MRS between (t) and (d) for the regionalist party.

$$MRS_{t,d}\left(\text{Party E}\right) = -\frac{\left(y_{Av} - y_E\right)}{\left(-1 + s_E / 2\sqrt{d}\right)} \qquad (23)$$

The crucial difference is that the regionalist party derives positive utility from the provision of territorial goods as long as $s_E > 0$. Thus, the ICs look very different from those of the left and right parties. However, I distinguish between two cases: the case in which the regionalist party comes from a rich region ($y_E > y_{Av}$) and the case in which the regionalist party comes from a poor region ($y_E < y_{Av}$). First, when $y_E > y_{Av}$ the ICs for the regionalist party from a rich region look like those in Figure 2.4 below. In this scenario the regionalist party prefers to increase the tax rate to fund only regional public goods. The greater the salience of the 2nd dimension for the regionalist party, the higher the preferred level of regional public goods.

But also, the salience affects the slope of the indifference curves. The more weight the party attaches to the provision of territorial goods, the more it is willing to concede with respect to the overall tax rate. This is illustrated in the figure since the continuous line represents the ICs with low salience of the 2nd dimension and the dashed line the ICS with high salience of the 2nd dimension. Note as well that the preferred policy vectors for the regionalist party, E^* and E^{***}, are always on the diagonal of the policy-space (t, d), which implies a positive level of regionalised policy but no inter-personal redistribution, i.e. $(t \leq 1, T = 0)$.

Since the regionalist party represents a relatively rich region this is exactly what I expect. It is worthwhile emphasising that even if the regionalist party comes from a rich region it can be better off by increasing the overall tax rate as long as it is used to fund regional public goods.

Figure 2.4: Legislative Preferences for E *with* $y_E > y_{Av}$

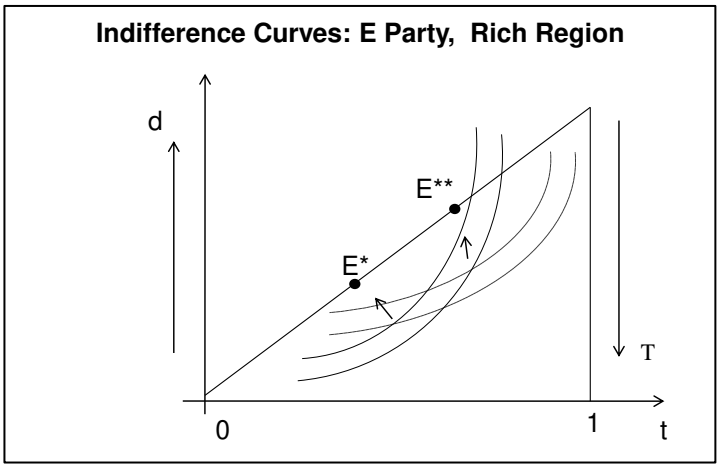
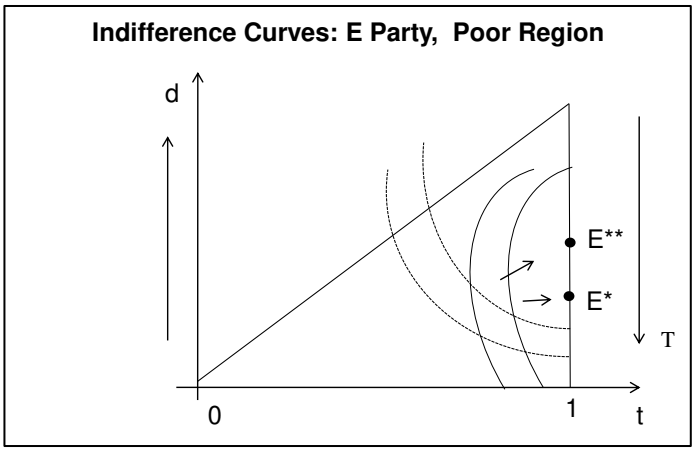


Figure 2.5: Legislative Preferences for E *with* $y_E < y_{Av}$



Finally, when $y_E < y_{Av}$ the ICs for the regionalist party from a poor region look like those in Figure 2.5 above. Note that in this case the preferred policy vectors E^* and E^{**} are no longer in the diagonal and instead they are located in the vertical line in which $(t=1, T \geq 0)$. As before, the greater the salience that the regionalist party attaches to the 2nd dimension (i.e. the greater s_E^*) the higher the preferred level of provision of regional public goods. This is illustrated by the fact that $E^{**} > E^*$. But also the shape of the ICs changes when the party devotes more weight to the 2nd dimension. The ICs look flatter in the case in which the salience is high (dashed line) than in the case in which the salience is low (continuous line). Therefore, the regionalist party from the poor region is more willing to concede on the tax rate in order to obtain the preferred levels of territorial goods when it devotes greater weight to 2nd dimension.

2.5 Legislative Coalitions and Fiscal Choices

Now I proceed to solve for the multiple equilibria of the legislative bargaining game and characterise the nature of the redistributive outcomes that various types of coalitions will implement. In order to do so I assume a fixed bargaining protocol where all the moves by each party are observable for all. This implies that Subgame Perfection (SPNE) is the required solution concept. Note, however, that I assume that a LR^* coalition cannot be formed in equilibrium. Admittedly this is a restrictive assumption that I plan to relax in future work.

A stylised sequence of the legislative bargaining game is as follows:

(i) *Round 1*: Party i, the party with the greatest seat share, is the first formateur. If party i is able to form a legislative majority then the legislative coalition implements the policy outcomes $\left(t^*_{1,iE}, d^*_{1,iE}\right)$; whereas if party i fails then

(ii) *Round 2*: Party j, the party with the second greatest seat share, is the second formateur. If party j is able to form a legislative majority then the legislative coalition implements the policy outcomes $\left(t^*_{1,jE}, d^*_{1,jE}\right)$, whereas if party j fails then

(iii) *Round 3*: Party E is the third formateur. If E is able to form a legislative majority then the legislative coalition implements the policy outcomes $\left(t^*_{1,iE}, d^*_{1,iE}\right)$ or $\left(t^*_{1,jE}, d^*_{1,jE}\right)$; whereas if party E fails then

(iv) *No Agreement*: The *status quo* is preserved and the pre-existing fiscal choices remain unchanged with $\left(t_0, d_0\right)$.

Note that the actual composition of the lower house determines which party is the first formateur. If the left party obtains the largest seat share on the electoral stage, it will be the first mover in the first round. However, a scenario is also possible in which the right-wing party obtains a larger seat share, in which case it becomes the first formateur. Therefore, I need to consider both scenarios when solving and characterizing the legislative equilibria. Distinguishing between these two scenarios will be also helpful in developing the way in which the legislative salience of the 2nd dimension affects the nature of redistributive outcomes.

2.5.1 Left-Party is the First Formateur in Parliament

I start solving the game under two premises that I will relax later on to provide a full description of the multiple equilibria that can take place in parliaments. First, I solve the game under the premise that the regionalist party comes from a rich region and hence $y_E > y_{Av}$. Second, that both the left and the right party derive negative utility from the provision of regional public goods and hence $s_L < 0,\ s_R < 0.$ However, I will shortly relax both premises and I will also describe the equilibria when the regionalist party comes from a poor region and the left and right-wing parties derive positive utility of the regionalisation of public policy.

To characterise the legislative equilibria from here on I assume that in the *status quo* (t_0, d_o) the tax rate is positive $(t_0 \geq 0)$ but all the revenue raised is devoted to fund inter-personal redistribution $(T_0 \geq 0)$ and therefore the provision of regional public goods is $(d_0 = 0)$. In other words, the *status quo* will be located somewhere in the bottom horizontal line of the policy-space. This will be very useful to characterise the equilibria depending on the current taxation rate t_0, the shape of the

indifferences curves of political parties and the sequence of the legislative bargaining process.

First, the left party has the largest seat share in parliament and therefore is the first formateur. But to solve the legislative bargaining game I need to solve it by backward induction. I start by analysing what would be the outcome in *Round 3*. The regionalist party has two options: either to offer a coalition agreement with the left party $\left(t^*_{1,LE}, d^*_{1,LE}\right)$, or to offer a coalition agreement with the right party $\left(t^*_{1,RE}, d^*_{1,RE}\right)$. Recall that the regionalist party is interested in increasing the provision of territorial goods whereas the left party wants to increase the provision of inter-personal redistribution. Hence, both are interested in increasing the general taxation rate but in order to fund different forms of redistribution. But the common interest in increasing t_0 opens up the possibility for both parties to reach a compromise in the lower house.

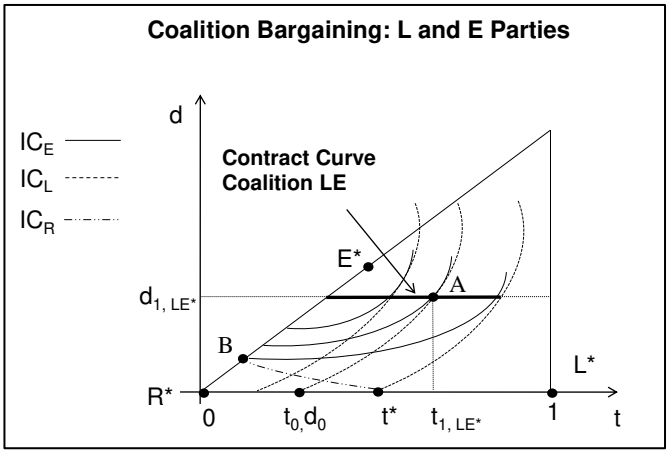
On the other hand, the regionalist party can also decide to offer a coalition agreement with the right-wing party. The right party is interested in minimising all forms of redistributive policy. Whereas the regionalist party from the rich region prefers to eliminate inter-personal redistribution but wants to preserve its preferred level of provision of regional public goods. The common interest in minimising inter-personal redistribution opens up the possibility of an agreement between both parties. Therefore, the regionalist party will decide to which party it offers a coalition agreement, depending on the prevailing *status quo*.

If the current tax rate is below a certain threshold level t^*, the regionalist party is better off by offering an agreement to the left party to increase t_0. Whereas if the current tax rate under the *status quo* is above that threshold the regionalist party is better-off by offering a coalition agreement to the right party. Note that if $\left(t_0, d_0\right)$ is below the threshold t^* in Figure 2.6 the regionalist party is always better off by offering a coalition pact to the left

party. However, if (t_0, d_0) is above t^* the regionalist party is better off by offering a coalition agreement to the right party.

To see why this is the case, note that the indifference curves for all three parties are drawn. The threshold level t^* is such that it makes the regionalist party indifferent to both proposing an agreement to the left and proposing an agreement to the right in *Round 3*. Note that where the threshold level is located fundamentally depends on the salience of the 2nd dimension that shapes the ICs for each party. More specifically, if the legislative salience of the 2nd dimension for the right party is greater for the right-wing party -as is the case in Figure 2.6 since its ICs are flatter- the threshold level will be higher. That is, if the right party is more actively opposed to the regionalisation of public policy than the left, then the greater is the set of tax rates in the *status quo* for which it is optimal for the regionalist party to offer a coalition agreement to the left.

Figure 2.6: Legislative Coalition LE^* *and* $s_L < 0,\ s_R < 0$



Therefore, in *Round 3* the regionalist party is better-off by offering to form a coalition with the left party to implement outcomes $\left(t^*_{LE} \geq 0, d^*_{LE} \geq 0\right)$ as long as $t_0 \leq t^*$. On the other hand, if $t_0 \geq t^*$ the regionalist party is better-off by offering to form a coalition with the right party. This has one important implication: if the pre-existing tax rate is high enough then a coalition between the left and the regionalist party from a rich region is not feasible even when the left party is the first formateur.

But assuming that the tax rate in the *status quo* is low enough, then the regionalist party will offer a redistributive allocation to the left party $\left(t_{LE} \geq 0, d_{LE} \geq 0\right)$ such that it solves the following maximisation problem:

$$\text{Max} \quad y_E + t_1\left(y_{Av} - y_E\right) - d_1 + s_E d_1^{\frac{1}{2}}$$

$$\text{subject to} \quad y_E + t_1\left(y_{Av} - y_E\right) - d_1 + s_E d_1^{\frac{1}{2}} \geq y_E + t_0\left(y_{Av} - y_E\right) - d_0 + s_E d_0^{\frac{1}{2}} \qquad \text{(PC)}$$

$$y_P + t_1\left(y_{Av} - y_P\right) - d_1 - s_L d_1^{\frac{1}{2}} \geq y_P + t_0\left(y_{Av} - y_P\right) - d_0 - s_L d_0^{\frac{1}{2}} \qquad \text{(ICC)}$$

The first constraint is the participation constraint for the regionalist party itself and the second constraint is the incentive compatibility constraint for the left party. Both parties need to be better-off with the coalition agreement $\left(t^*_{1,LE}, d^*_{1,LE}\right)$ than in the current *status quo* with $\left(t_0, d_0\right)$. Although recall that for tractability in the characterisation of the equilibria I am assuming

that the provision of regional public goods is 0 in the *status quo*. In order to solve this constrained optimisation problem I need to construct the Lagrangian and take the first order conditions with respect to t_1 and d_1. First, I assume that the participation constraint for the regionalist party is satisfied. That is, that the participation constraint for E is not binding given that in the current *status quo* the provision of regional public goods is $d_0 = 0$. By doing that I am simplifying the problem to a constrained optimisation programme with only one inequality constraint.

Now I can write down the Lagrangian and the Kuhn-Tucker conditions:

$$L(\cdot) = y_E + t_1(y_{Av} - y_E) - d_1 + s_E d_1^{\frac{1}{2}} -$$

$$-\lambda\left[d_1 + s_L d_1^{\frac{1}{2}} - t_1(y_{Av} - y_P) + t_0(y_{Av} - y_P) - d_0 - s_L d_0^{\frac{1}{2}}\right]$$

$$\frac{\partial L(\cdot)}{\partial t_1} = (y_{Av} - y_E) + \lambda(y_{Av} - y_P) = 0$$

$$\frac{\partial L(\cdot)}{\partial d_1} = -1 - \lambda + s_E / 2\sqrt{d_1} - \lambda s_L / 2\sqrt{d_1} = 0$$

$$\lambda\left[d_1 + s_L d_1^{\frac{1}{2}} - t_1(y_{Av} - y_P) + t_0(y_{Av} - y_P) - d_0 - s_L d_0^{\frac{1}{2}}\right] = 0$$

From the first order conditions I can solve for λ, which takes the value $\lambda = (y_E - y_{Av})/(y_{Av} - y_P)$. Since $\lambda > 0$, the incentive compatibility constraint for the left party L is binding. Intuitively, this implies that it is optimal for the regionalist party to offer a redistributive allocation such that the left party is indifferent between that particular allocation $(t^*_{LE} \geq 0, d^*_{LE} \geq 0)$ and the *status quo* (t_0, d_0). On the other hand, by substituting the value of λ

and rearranging terms I can solve for the provision of territorial goods that party E will offer and party L accepts:

$$d_{LE}^{*} = \left[\frac{s_E\left(y_{Av} - y_P\right) - s_L\left(y_E - y_{Av}\right)}{2\left(y_E - y_P\right)} \right]^2 \qquad (24)$$

Now I proceed to *Round 2* of the game. The right-wing party wants to build a legislative coalition with the regionalist party in order to avoid a coalition between the left and the regionalist party in the next round. However, if $t_0 \leq t^*$ the right party cannot offer any redistributive allocation that the regionalist party will accept. This is the case because the regionalist party prefers to reject the offer and wait until the last round. This result is driven by the fact that the indifference curves for the right party are very flat, in the sense that the salience of the 2nd dimension for that party is high and therefore it is very actively opposed to the provision of regional public goods. Hence, an interesting trade-off for the right party emerges here: although it was an optimal electoral strategy for the right party to increase the salience of the 2nd dimension at the electoral stage, it now limits the ability of the party to form a coalition once in parliament.

In *Round 1* of the legislative bargaining game the left party is the formateur and will offer the redistributive equilibrium $\left(t_{LE}^{*} \geq 0, d_{LE}^{*} \geq 0\right)$ to the regionalist party. Since the left party knows that in the next round the right party will not be able to form a coalition but in the last round the regionalist party will be the formateur, it offers a redistributive allocation such that the regionalist party is indifferent to accepting the offer now and waiting until the last round. Therefore, the redistributive allocation depicted as point A in the policy-space of Figure 2.6 is the

Subgame Perfect Nash equilibrium when the tax rate in the *status quo* is t_0 and is below the threshold level t^* .

Note that the redistributive outcomes in the redistributive allocation A imply a greater tax rate than in the *status quo* but also greater provision of regional public goods. Therefore, the regionalist party is able to extract territorial goods by forming a coalition with the left party. The most important feature of this interior solution for the coalition agreement LE^* is that since the utility functions are quasi-linear the level of provision of regional public goods is always equal to d^*_{LE} as long as $t_0 \leq t^*$. As a result, I can draw the *contract curve* for the coalition LE^*: for those values of the *status quo* in which the taxation rate is below a given threshold, a coalition LE^* will be formed that will implement d^*_{LE} in equilibrium.

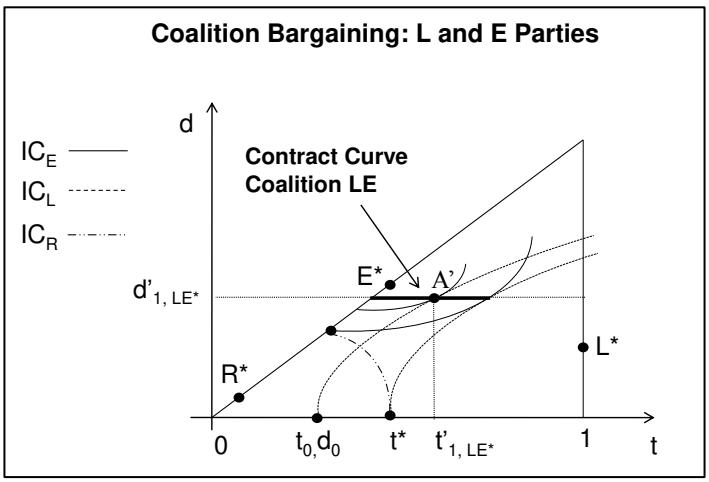
From equation (24) it is easy to see that the greater the salience of the 2nd dimension for the regionalist party, the more the regionalist party is able to extract. It is important to emphasise that the left party is indifferent between the *status quo* and the redistributive allocation in A since the increase in the tax rate is devoted to fund regional public goods –and therefore in relative terms the provision of inter-personal redistribution declines. But also, the salience of the second dimension for the left party needs to be low enough for the LE^* coalition to be feasible in equilibrium.

Note that by simply looking at the numerator of equation (24) above I can derive the following condition for $d^*_{LE} \geq 0$:

$$\frac{s_E}{s_L} > \frac{\left(y_E - y_{Av}\right)}{\left(y_{Av} - y_p\right)} \qquad (25)$$

The condition in the inequality above provides useful comparative statics. The greater the weight the regionalist party attaches to the 2nd dimension, the greater the provision of territorial goods. However, the more actively opposed the left party is to the regionalisation of public policy, the lower it is. The intuition behind this result is simple; the left party needs to make a side-payment to the regionalist party by increasing the level of territorial goods in order to form a stable legislative majority. That is the only way by which a *left-regionalist* LE^* coalition can emerge. In sum, a coalition between the left and a regionalist party from a rich region will emerge when the tax rate in the *status quo* is low enough. In equilibrium, this coalition raises the taxation rate and increases the regionalisation of public policy. However, it reduces in relative terms the provision of inter-personal redistribution. As a result, the regionalist party is better off with respect to the *status quo* and the left party remains indifferent.

Figure 2.7: Legislative Coalition LE^* *and* $s_L > 0,\ s_R > 0$



I have shown that the salience that each party attaches to the 2nd dimension plays a crucial role that influences both the nature of the equilibria and the conditions under which it is feasible. Therefore, it is important to characterise the equilibria when the left and right-wing parties are not opposed to the provision of regional public goods but instead derive some positive utility from it (i.e. when $s_L > 0,\ s_R > 0$). When this is the case and the left party is the first formateur the new contract curve for the LE^* coalition looks like that described in Figure 2.7. As before, this is only the case when $t_0 \leq t^*$. The main difference is that now the contract curve is higher and therefore the equilibrium levels of regionalisation of public policy are greater than before.

This result is driven by the fact that t and d are no longer substitutes for the left party and therefore they can easily pact a coalition. But the result is intuitive: when the left party is in favour of regionalisation, the provision of territorial goods in equilibrium increases. Note also that this is the mirror image of the electoral-legisaltive trade-off discussed before but this time for the left party. The left party, instead, can benefit at the legislative stage from the 2nd dimension as long as the coalition LE^* implements a policy portfolio with greater regionalisation is combined with an increase in the tax-rate that the left prefers. But this requires $s_L > 0$ to be a feasible equilibria as described in Figure 2.7.

2.5.2 Right-Party is the First Formateur in Parliament

In this case the right-wing party has the largest seat share in the national parliament and therefore is the first formateur. Recall that since high-income voters who are members of the majority group are not the largest group this implies that party R was able to attract low-income voters in unified districts. Hence, heresthetics was used as an electoral weapon to attract voters and it was indeed an optimal electoral strategy. To solve for the

Subgame Perfect Nash equilibrium I proceed again by backward induction.

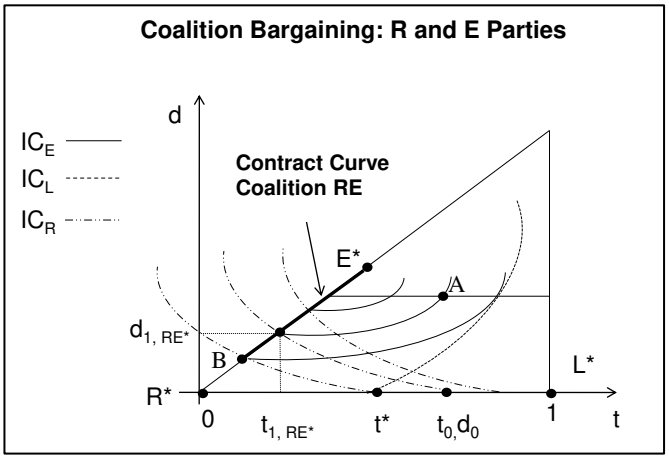
Like before, in *Round 3* the regionalist party decides to whom it wishes to offer a coalition agreement. We already know that the regionalist party is better-off by offering an agreement to the right party with a redistributive allocation $\left(t^*_{RE} \geq 0, d^*_{RE} \geq 0\right)$ as long as $t_0 \geq t^*$. When this is the case the regionalist party from the rich region prefers to offer a coalition that lowers the tax rate and the levels of inter-personal redistribution in exchange for greater provision of regional public goods. But, as highlighted before, this agreement is only feasible when the tax rate in the *status quo* is sufficiently high and $t_0 \geq t^*$. This is illustrated in Figure 2.8 below. On the other hand, if the tax rate in the *status quo* is low enough the coalition between the right party and the regionalist party from the rich region is not feasible.

In *Round 2* the left party is the formateur, but as long as the tax rate in the *status quo* is high enough it cannot offer a coalition agreement to the regionalist party that will make this party indifferent to accepting or rejecting the offer. At this point it is useful to remember that the threshold level t^* that makes the regionalist party indifferent depends on the salience of the 2nd dimension of all three parties. But *ceteris paribus*, the greater the legislative salience of the 2nd dimension for the right party and therefore the more actively opposed it is to the regionalisation of policy, the lower it is the range of tax rates in the *status quo* for which the left party cannot offer a redistributive allocation that makes the regionalist party indifferent. This illustrates the trade-off for the right-wing party between the electoral stage and the legislative stage that I mentioned above.

Finally, in *Round 1* the right-wing party is the formateur and will offer to the regionalist party a coalition agreement such that it makes that party indifferent. Figure 2.8 illustrates the contract curves for the coalition agreement when $t_0 \geq t^*$. The set of redistributive allocations $\left(t^*_{RE}, d^*_{RE}\right)$ that belong to the contract

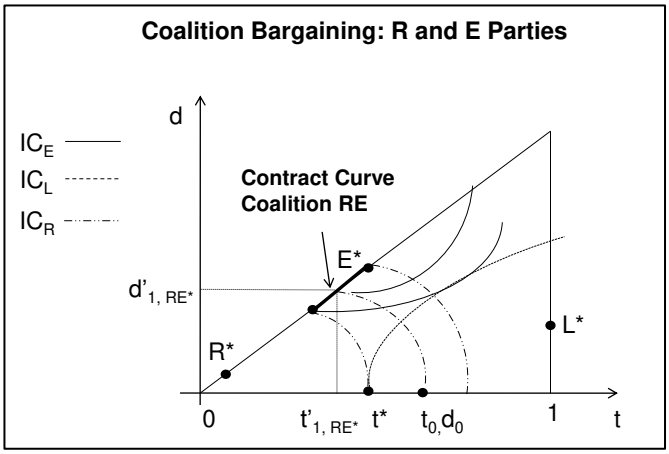
curve imply that the *right-regionalist* coalition increases the provision of regional public goods and eliminates the provision of inter-personal redistribution. Since the *contract curve* for the coalition RE^* coincides with the upper diagonal of the policy-space it means that all the revenues generated from the tax rate are now devoted to fund regional public goods. The intuition behind the result is that, again, the model predicts a side-payment, but this time from the right party to the regionalist party. In other words, the only way a *right-regionalist* legislative coalition emerges is by implementing in equilibrium a greater provision of territorial goods and lower inter-personal redistribution with respect to the *status quo*.

Figure 2.8: Legislative Coalition RE^* *and* $s_L < 0,\ s_R < 0$



Finally, I derive the equilibria for those cases in which the right and the left party do not derive negative utility from the provision of territorial goods and instead their preferred levels of policy regionalisation are positive. If the right party is the first formateur this scenario reduces the set of redistributive allocations that belong to the contract curve between the right and the regionalist party. This is illustrated in Figure 2.9 below. Note that it still is the case that the right-regionalist coalition can only emerge in equilibrium for a pre-existing tax rate above a certain threshold $t_0 \geq t^*$. But now the contract curve for the RE^* coalition, in the diagonal of the policy-space, is shorter and nearer to the ideal point of the regionalist party. The logic is that the regionalist party from a rich region can better extract its preferred policy when the right-wing party is not opposed to regionalisation. But the interesting issue is that the right party again confronts the electoral/legislative trade-off: it maximises the likelihood of forming a stable coalition when it is less actively opposed to the regionalisation of public policy.

Figure 2.9: Legislative Coalition RE^* *and* $s_L > 0, \ s_R > 0$

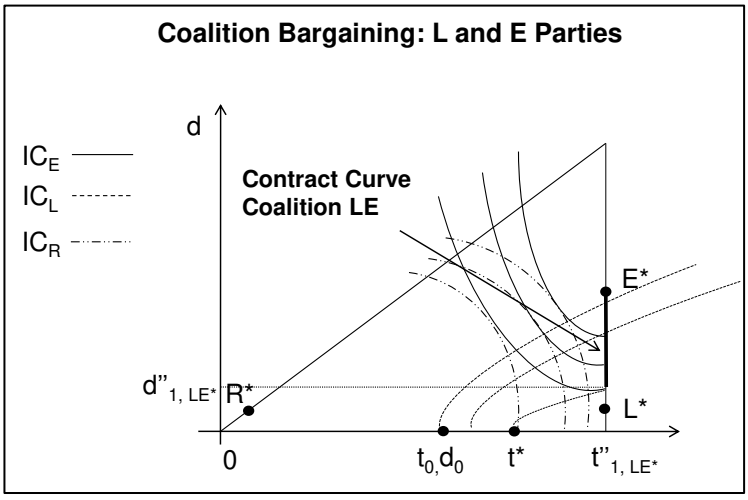


2.5.3 Bargaining with a Regionalist Party from a Poor Region

Now, I relax one of the premises I have used to this point and I describe the legislative equilibria when the regionalist party comes from a poor region and therefore $y_E < y_{Av}$. Rather interestingly, in this case the two-dimensional legislative bargaining game also has profound redistributive implications. When both the left and the right wing party are opposed to the regionalisation of public policy the only coalition that emerges in equilibrium is that between a left party and a regionalist party. That is, a right-regionalist coalition is no longer feasible. This can easily be seen if one draws the indifference curves for the right party when $s_R < 0$ and the indifference curves for the regionalist party from the poor region.

However, when the left and the right derive some positive utility of the provision of regional public goods two types of coalitions are feasible: the LE^* coalition and the RE^* coalition. First, when the left party is the formateur, the contract curve for the left-regionalist coalition will be that illustrated in Figure 10. For taxation rates in the *status quo* below a certain threshold $t_0 \leq t^*$, the set of subgame perfect Nash equilibria that belong to the contract curve will be those in the vertical line in Figure 2.10. Note that all the redistributive allocations in the contract curve are of the type $\left(t^*_{1,LE} = 1, d^*_{1,LE} \geq 0\right)$. Thus, the main difference with respect to the case in which the left party was the formateur and the regionalist party was from a rich region is that the contract curve looks vertical instead of horizontal.

Figure 2.10: Legislative Coalition LE^* *with* $y_E < y_{Av}$ *and* $s_L > 0,\ s_R > 0$

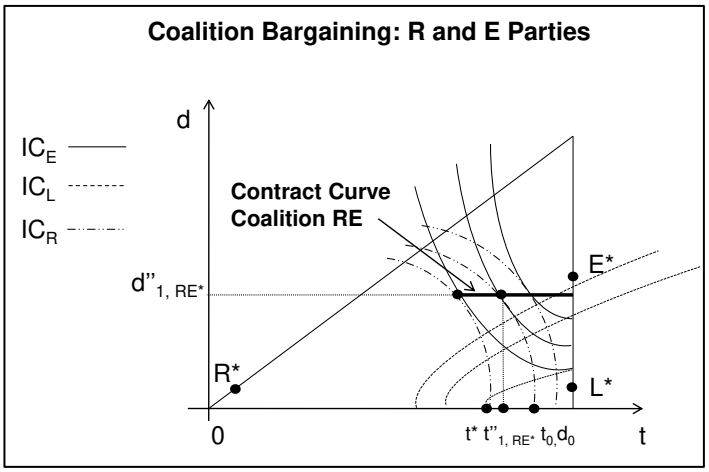


Differently put, the contract curve depicted in Figure 2.10 implies that a coalition between the left party and a regionalist party will increase the taxation rate to the point in which $t^*_{LE} = 1$. However, the provision of inter-personal redistribution is not that preferred by the left party (L^*) alone and instead will be in between the preferred level of the regionalist party and the preferred level of the left. Accordingly, the expected level of inter-personal redistribution is lower when the regionalist party has sufficient bargaining power and it is pivotal to form a coalition. The greater the weight the regionalist party attaches to the regionalisation of public policy, the lower the expected level of inter-personal redistribution. Therefore, there is still a trade-off between the provision of inter-personal redistribution and the regionalisation of public policy when the regionalist party comes from a poor region.

But perhaps even more interestingly, a right-regionalist coalition can also emerge when the regionalist party comes from a poor region as long as the right party derives some utility from the regionalisation of public policy. If the taxation rate in the *status quo* is high enough -that is $t_0 \geq t^*$- the regionalist party from the poor region can be better off by forming a coalition with the right-wing party. Therefore, even when the left party is the formateur a right-regionalist coalition can emerge in equilibrium depending on the tax rate in the *status quo*. The logic behind this coalition is that the regionalist party can be better off by agreeing to an increase in the regionalisation of public policy with the right party, even if it is at the price of declining the overall tax rate and the provision of inter-personal redistribution.

Figure 2.11 illustrates the case in which the right party is the formateur and a right-regionalist RE^* coalition emerges in equilibrium. If the tax rate in the *status quo* is high enough, there exists a contract curve for a right-regionalist coalition RE^* that reduces the overall taxation rate and increases the regionalisation of public policy. In this case there is an interior solution in which the right and the regionalist party agree on providing a given level of regionalisation –this result is similar to those highlighted by Bandiera and Levy (2010). Also, note that this scenario shows how the 2nd dimension distorts the nature of redistributive outcomes by making feasible in equilibrium the emergence of a new coalition between the regionalist party and the right party even when the regionalist party comes from a poor region. As emphasised before, this illustrates well the argument made at the beginning: the 2nd dimension enables new opportunities for legislative coalitions.

Figure 2.11: Legislative Coalition RE^* *with* $y_E < y_{Av}$ *and* $s_L > 0,\ s_R > 0$



2.6. Concluding Remarks

The model discussed in this chapter has two main implications from the point of view of comparative politics. The model illustrates how the existence of a politically salient territorial-identity second dimension (i) affects the strategic electoral incentives by political parties to play the "heresthetics card" at the electoral stage and (ii) affects the set of feasible legislative coalitions in national parliaments and therefore the nature of redistributive outcomes and fiscal choices. This implies that parties' strategies on the territorial second dimension can generate important redistributive consequences.

First, the model has illustrated the conditions under which increasing the electoral salience of the territorial dimension can be an optimal electoral strategy for the right and regionalist parties. By doing that they are able to split the majority of low-income voters between those in unified districts and those in identified

districts. When the electoral salience of the territorial-identity dimension is high the former are likely to abandon the left and switch towards the right, and the latter are likely to abandon and shift towards the regionalist party. This mechanism is largely driven by the electoral geography of voters, but it is likely to be in place whenever low-income voters constitute a majority group of the whole population. Therefore, as long as the population is divided among different identity groups, the right and regionalist parties have electoral incentives to break up existing majorities by emphasising the territorial second dimension.

The model also illustrates how political parties' strategies affect the formation of legislative coalitions and the redistributive outcomes implemented by those coalitions. Interestingly, once the regional-identity dimension is introduced it is no longer true that in PR multiparty democracies the most likely equilibrium involves left parties implementing greater levels of overall redistribution (Iversen and Soskice 2006; Persson et al 2007). I have shown that when the left party obtains the largest seat share, a *left-regionalist* legislative coalition LE^* implements in equilibrium lower inter personal redistribution than the preferred level by the left party alone.

The LE^* coalition can form in equilibrium but it requires an increase in the degree of regionalisation of public policy. Thus, the existence of a salient territorial dimension of party induces a legislative side-payment that takes the form of greater regionalisation of public policy. On the other hand, a coalition between the right and the regionalist party can also emerge in equilibrium as long as the tax rate in the status quo is high enough. This is what I refer to as the *right-regionalist* coalition. In essence is a non-redistributive coalition, but interestingly enough the RE^* coalition also implements in equilibrium greater provision of territorially targeted goods than in the *status quo*.

The model also points towards an important electoral-legislative trade-off, especially for the right-wing party. On one hand, the right party is better-off by increasing at the electoral

stage the salience of the territorial cleavage and emphasising its preferences against the regionalisation of public policy. The right party can benefit from the electoral antagonism with the regionalist party. However, once in parliament, the right party's legislative preference of strong opposition to regionalisation can decrease its likelihood of forming a stable coalition. On the other hand, the left party can benefit from a moderate electoral position on the territorial dimension since it increases the set of redistributive allocations in which the left forms a stable coalition.

In sum, this chapter has argued that the salience of the territorial-identity dimension of party competition in multiparty systems has important redistributive consequences. Specifically, it has illustrated a way in which the existence of a politically salient territorial cleavage affects the strategic incentives of political parties to prime the territorial card at the electoral stage and, also, affect the set of feasible legislative coalitions in national parliaments and the nature of redistributive outcomes.

CHAPTER 3. EMPIRICAL STRATEGY

3.1 Testing the Empirical Implications

The model in the previous chapter has illustrated the way in which second dimensional electoral incentives, based on the territorial-identity cleavage, can affect redistributive outcomes in parliamentary democracies. The main argument being that a salient second dimension can be used as an electoral weapon, especially in the hands of the right and regionalist parties, and that it also has implications in the post-electoral coalition bargaining game since it opens up opportunities for new legislative coalitions. But before presenting the results that support these claims, I will first summarise the empirical implications of the model and describe the strategy to test them.

The theoretical model has two main stages: the electoral stage and the legislative bargaining one. But there is one crucial element that links the two stages: parties' strategies. The emphases that parties give to the territorial identity cleavage have electoral and legislative implications since I assumed that there is a one-to-one

correspondence between electoral strategies and legislative preferences. Therefore, political parties' strategies will be the main focus of attention in all the subsequent chapters, although they will be analysed sequentially in different ways and aggregated at different levels. Importantly, in the following chapters I will follow a top-down sequential approach, testing the empirical implications at different levels, going from the macro level to the micro level, in a similar way to how a Russian *matrioska* is opened.

3.1.1 Empirical Challenges at the Legislative Stage

First, I will explore the macro level, and analyse how post-electoral coalition bargaining affects fiscal choices. Specifically, like in the theoretical model, I will explore the way in which two-dimensional legislative bargaining affects two types of fiscal choices: inter-personal redistribution and regionalisation of public policy. But the main challenge regarding the test of the legislative stage of the model and its empirical implications are the multiple equilibria that I have discussed. The task of identifying the multiple equilibria was important at the theoretical level to provide a careful description of the full range of legislative coalitions that can emerge when the bargaining game is two-dimensional. But I acknowledge that it makes the transition to the empirical world more complicated. Recall that different contract curves emerge among different coalitions depending on the pre-existing tax rates, political parties' strategies and income fundamentals.

Moreover, simply looking at how different types of coalition governments affect fiscal choices would not be a reasonable strategy. This is the case because focusing only on coalition governments would *de facto* imply concentrating on cabinet parties and ignoring the role of outside cabinet parties. However, the latter often play a crucial role in sustaining legislative majorities in parliaments. Consider, for example, a case in which

minority governments rely on the legislative support of regionalist parties in national parliaments. This has been usually the case in Spain, where both right and left parties have looked for the support of the regionalist parties to sustain their minority cabinets. In fact, according to the data provided by Strøm and Nyblade (2007) for European parliamentary democracies, only 44% were coalition majority cabinets in the period 1945-1999. Whereas 18% were coalition minority governments, 22% single-party minority cabinets and 13% single-party majority cabinets.

To circumvent these challenges and to arrive at a single measure of the parliamentary salience of the territorial-identity dimension in parliaments I undertake the following procedure. First, I calculated the bargaining power, in terms of `coalition potential´, for each party in every legislature across the 18 parliamentary democracies under analysis. In order to obtain a measure of political parties' bargaining power I use the *Shapley-Shubik* and *Banzhaf* voting power indices. The voting power index is then standardised between 0 and 1 by taking into account all parties with political representation in a given legislature. Finally, the standardised bargaining power measure is used as a weight for the preferences on the territorial dimension of each party. This enables me to come up with an aggregate measure of the legislative salience of the territorial dimension that takes into account the bargaining power and preferences of all parties. The exact same procedure is applied regarding the left-right or welfare dimension.

After applying this procedure to all the legislatures, I am in a much better position to test the empirical implications of the model at the legislative stage. In other words, it is now possible to test some of the most critical aspects of the legislative bargaining model. Specifically, a greater legislative salience of the 2nd dimension should: (i) reduce the levels of inter-personal redistribution; and (ii) increase the levels of regionalisation of public policy. The latter is the most obvious since in all the legislative equilibria analysed both the redistributive left-regionalist coalition and the non-redistributive right-regionalist

coalition needed to increase the levels of regionalisation of public policy as a "side-payment" to secure the legislative support of the regionalist party.

The former is perhaps less obvious, but it will be recalled that the *right-regionalist* coalition always decreased the levels of inter-personal redistribution in all the equilibria. This was obvious in the case in which the regionalist party was from a relatively rich region, but I also have illustrated that even when the regionalist party is from a poor region a *right-regionalist* coalition can emerge in equilibrium. On the other hand, *left-regionalist* coalitions were sustained by making the left party indifferent between the current tax rates and the fiscal choices in equilibrium. Therefore, an overall greater legislative salience of the territorial-identity dimension should open up opportunities for new coalitions that reduce the levels of inter-personal redistribution. This will be the main focus of attention in the `coalition bargaining tests´ that follow in the following chapter.

3.1.2 Empirical Challenges at the Electoral Stage

The next empirical chapter that will follow refers to the electoral stage, which offers more straightforward empirical implications at the theoretical level but also raises some empirical hurdles. Specifically, I will focus on providing a test for the electoral heresthetics mechanism at the party-level. The main empirical implication to test is that both right and regionalist parties are likely to have electoral incentives to increase the electoral salience of the territorial dimension. It will be recalled that the model predicts that both parties should have incentives to prime the second dimension in order to split the electoral base of the left party. The mechanism driving this result is that the 'price to pay' by the right party is lower because of the geographical distribution of voters. In fact, the model predicts that the left party should only have incentives to increase the salience of the

territorial dimension as a way to preserve its core voters but not to mobilize them. Thus, the key implication that I will test is to what extent right and regionalist parties manipulate the dimensionality of the political space because of electoral incentives.

Accordingly, I will test if political parties increase the salience of the territorial dimension after an electoral loss when they are distant from the average voter on the first dimension. This summarises the logic of the theoretical argument according to which parties have incentives to prime the second dimension to mobilise voters along the lines of the territorial dimension. It is worth noting here that this `heresthetics test´ does not examine the geographical divide between voters in unified and identified districts. However, to get empirically closer to this, I will test the extent to which the heresthetics mechanism is contingent upon the levels of diversity. In order to achieve this, I will employ the Fearon (2003) data on cultural fractionalisation, which uses linguistic distances between groups, as a proxy for the importance of the divide between identified and unified districts.

Finally, the last empirical chapter will investigate the empirical implications of the model at the individual-level. Specifically, I will use Spain as a case study to explore the relationship between the salience of the territorial dimension and the formation of individual preferences for redistribution. I acknowledge here that the endogenous formation of individual preferences is not addressed in the theoretical model. However, I would argue that this assumption is in any case too strict, and I therefore explore it empirically. Specifically, the objective of the last empirical chapter will be to reveal the complex relationship between individuals' partisanship, two-dimensional political competition and individual preferences.

3.2 Identification Strategy: Fixed Effects Models

The test of the empirical implications of the model also raises serious issues regarding the design of proper identification strategies. The challenges are predominantly that: (i) there are

constraints on data availability and alternative sources; and (ii) problems of endogeneity are likely to be pervasive. Therefore, I here explain and discuss the way in which I address both issues.

First, I will draw on a sample of 18 OECD parliamentary democracies. The purpose is to avoid a potential problem of selection-bias on the dependent variables by employing a broad sample. As a result, these parliamentary democracies include countries with both PR systems and plurality systems. This is important since it means that the variables that control for the proportionality of the electoral system (mainly, the Gallagher index) will play a central role in the analyses that follow. One might argue that a strategy focusing only on PR countries would be more adequate, but due to data constraints I prefer to maximise the number of available observations. Note that I will also rely on other institutional characteristics, such as the requirement of an investiture vote in parliaments, to proxy for the extent to which legislative coalition bargaining plays a prominent role.

But the central challenge is how to deal with endogeneity issues, especially in relation to the joint determination of parties' strategies, the legislative salience of the territorial dimension and redistributive outcomes. The strategy that I follow in that regard is the estimation of dynamic fixed effects models as my preferred identification strategy. So, for example, in the chapter devoted to macro-level outcomes, I estimate dynamic models with legislature-based observations. In other words, I collapse the data at the legislative level. The important thing to notice, however, is that in the macro-level models the legislative salience variables are measured at the beginning of the legislature; whereas the redistributive outcomes of interest are measured at the end of the legislature. Therefore, the inter-election period is the time-lapse in which I expect changes to occur.

Put differently, I will predominantly be exploiting variation in fiscal choices within countries over inter-election periods with both country and year intercepts. This approach provides a significant 'safety net' in relation to the risk of endogeneity. First, however, I will estimate random effects models that include a

lagged dependent variable. They are useful because the coefficients provide, by virtue of including the lagged dependent variable, an estimate of the expected increase (or reduction) in the outcome variable of interest. Next, I provide evidence with the preferred fixed effects legislature-based models. As said above, they focus only on within-country variation through legislatures and therefore provide a more nuanced estimation of the expected redistributive consequences of the legislative salience of the territorial-identity dimension.

Last but not least, regarding the empirical test at the electoral stage; note that heresthetics crucially involves a shift in rhetoric to change the dimensionality of the political space. Therefore, in the empirical world it is necessary to account for the previous positions of a given part on each dimension. I will address this challenge by also using fixed effects models, but this time with fixed effects at the party level. Most crucially, these specifications exploit within party variation in the emphases that parties attach to the second dimension, thereby taking into account the previous party positions. As such, they are useful to estimate how the electoral incentives in every election shift parties' rhetoric below or above the average salience levels for each party. For robustness, though, I will also employ an alternatively plausible specification to account for the nested structure of the data –namely, hierarchical models with random intercepts at the country and at the party level.

CHAPTER 4. THE LEGISLATIVE STAGE: COALITION BARGAINING

4.1 Empirical Implications at the Macro-Level

In this chapter I explore the empirical implications of the thesis at the legislative stage. In particular, I analyse how the composition of parliaments and two-dimensional coalition bargaining affects two fiscal choices: redistribution and regionalisation of public policy. Most importantly, I will undertake a `coalition bargaining test´ to investigate the way in which the legislative salience of the territorial-identity dimension affects fiscal choices. Specifically, I expect that a greater legislative salience of the territorial 2nd dimension should be associated with: (i) a decline in public social spending, which is employed as a proxy for redistribution; and (ii) an increase in economic self-rule at the regional level, which is used as a proxy for regionalisation of public policy.

But most importantly, I expect both hypotheses to be contingent on the existence of coalition bargaining among parties in parliaments. In other words, the legislative salience of the second dimension should modify fiscal choices as a result of

coalition bargaining in which parties trade-off redistribution and regionalisation of public policy. Crucially, this coalition bargaining should reduce the "left-bias" of PR systems. The hypotheses are tested for 18 OECD parliamentary democracies using dynamic legislature-based models. Specifically, the parliamentary and semi-presidential democracies under scrutiny in this chapter are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the United Kingdom.

Recall that the formal model discussed in the theoretical chapter illustrated the way in which the salience of the territorial 2nd dimension can affect the set of feasible legislative coalitions in national parliaments and therefore the nature of fiscal choices. Specifically, the model shows how both parties' preferences and bargaining power affect the redistributive outcomes that the legislative coalitions implement in equilibria. On the one hand, I showed that a legislative coalition LE* implements in equilibrium lower inter-personal redistribution than the preferred level by the left party alone. This is the case because a *Left-regionalist* redistributive coalition requires an increase in the levels of regionalisation as a side payment to 2nd dimension-based parties.

On the other hand, a legislative coalition RE* emerges when the right-wing party obtains the largest seat share and is able to form in equilibrium a legislative coalition with the regionalist party. This is the *Right-regionalist* coalition and it is in essence a non-redistributive coalition. The RE* coalition also implements higher levels of economic self-rule than in the *status quo*. Hence, the rise in the levels of regionalisation can be interpreted as a side-payment made by nationwide parties for both *Left-regionalist* and *Right-regionalist* coalitions. From this set of empirical implications I derive the following set of hypotheses to be tested in the empirical analyses. Admittedly, the hypotheses here represent a small fraction of all the implications discussed in the previous chapter regarding multiple equilibria. However, the ones presented here are arguably the most significant ones:

Hypothesis 1 ***(Two-Dimensional Legislative Bargaining and Social Spending):*** A greater legislative salience of the territorial 2nd dimension is likely to be associated with a decline in public social spending.

Hypothesis 2 ***(Two-Dimensional Legislative Bargaining and Economic Self Rule Level):*** A greater legislative salience of the territorial 2nd dimension is likely to be associated with an increase in economic self-rule at the regional level.

Hypothesis 3 **(*The conditional effects of the legislative salience of the 2nd dimension):*** The effects of the legislative salience of the territorial 2nd dimension are dependent on coalition bargaining among parties in parliaments.

4.2 Data and Variables

Dependent Variable I: Redistribution

On the one hand, I employ the OECD *Social Expenditures* and Welfare Statistics (2010) dataset as a proxy for the levels of redistribution across 18 parliamentary democracies. The overall public social expenditures variable (SOCX) is measured as a percentage of GDP. However, in order to obtain a better proxy for redistribution I subtract from the overall social spending the spending which is directed towards the elderly, mainly pensions and other services. By doing that I obtain a series for each country that arguably captures the extent of redistributive public social spending. Importantly, Lupu and Pontusson (2011) used the same variable as a proxy for redistribution and also subtracted spending targeted towards the elderly in their study. Thus, the results discussed in this chapter can be contrasted with their results.

Two issues are worth mentioning here. First, the SOCX social spending variable aggregates various universal spending programmes without regional specific targets. That is the reason

why I refer to it as national social spending throughout this chapter. Second, as Lupu and Pontusson (2011) have already pointed out, the measure of non-elderly social spending from the SOCX database highly correlates (0.8) with the more standard measures of redistribution which are computed as a percentage change in GINI coefficients from the Luxembourg Income Study (LIS). Unfortunately, the GINI data points are too sparse over time and therefore merging them with legislature-based data would be an impossible task. Therefore, to maximize the number of available observations I use the public social spending, with variation across-time and across-legislatures within countries, as my first dependent variable of interest. Although it only proxies for redistribution it still is a good measure of the redistributive effort in a given country.

Dependent Variable II: Regionalised Public Policy

On the other hand, I use the *Economic Self-Rule* measure as my second dependent variable of interest as a proxy for regionalisation of public policy. Admittedly, it is also challenging to obtain a good measure of the extent to which a given country has regionalised its policy with both cross-time and cross-country variation (Rodden 2004, Beramendi 2012). In this case I follow closely the recent work by Sorens (2011, 2012), which has developed several attempts to measure the extent to which regions and other subnational units have effective autonomy and self-rule over economic policies. Specifically, the *Economic Self-rule* variable developed by Sorens captures the effective regional autonomy over economic policies by taking into account regional taxation autonomy, spending powers and regulation capacity at the regional level.

The *Economic Self Rule* variable is constructed by simply multiplying an index of tax decentralisation (Stegarescu, 2005) by the policy scope weights from the Regional Authority Index (RAI) (Hooghe et al 2010). This weighting is important since the tax decentralisation index alone ignores the institutional and

programmatic autonomy at the regional level. Note that that tax decentralisation levels might be high but regional autonomy over economic policies very limited –this is the case of countries like Sweden. That's the reason why it is important to weight the Stegarescu (2005) data with the policy scope weights from the RAI Index. Therefore, the measure of Economic Self-Rule is a proxy for regionalisation of public policy that takes into account both the levels of tax decentralization as well as the policy autonomy at the regional level. But most interestingly, the amount of over time variation of this variable is very significant. As a result, I will be able to exploit changes across legislatures in the extent to which policy has been regionalised across parliamentary democracies.

Main Independent Variables:

Parties' Preferences in the Legislative

I differentiate the preferences of political parties in parliaments on two dimensions: the first dimension concerns the welfare/left-right dimension, whereas the second dimension refers to the decentralization/territorial dimension. In order to measure parties' positions I make use of the Comparative Manifesto Project CMP dataset (Budge et al. 2001, Klingemann et al. 2006, Volkens et al. 2012) since it provides the most wide-ranging information with respect to parties' electoral manifestoes and, arguably, about parties' preferences in general. Note that the cross-time variation of the CMP data provides a great source of information. Regarding the elaboration of position measures I follow closely the standard procedures developed by the Comparative Manifesto Research Group (Budge et al 2001) and more recently by Alonso (2012). Most importantly, each *per* score in the CMP data refers to the fraction of the electoral manifesto of a given party that contain policy statements (quasi-sentences) related to a particular dimension. I use them to calculate parties' preferences in each dimension for every legislature.

In order to measure the party positions on the first dimension I calculate them in two different ways. The first one makes use of the narrow welfare issue-scale dimension and it is calculated by simply subtracting *per505* (pro-welfare state expansion claims) from *per504* (pro-welfare limitation claims). Therefore, the *welfare* party position variable is equivalent to (*per504-per505*) and it gives me the position of each party on the welfare dimension. Alternatively, the second measure of party positions on the first dimension is the traditional left-right position –the *rile* variable– which is calculated by subtracting all the left-wing salience scores from all the right-wing salience scores. For a full description of all the *per* codes included in the rile dimension see Table 4.11 –plus a minor correction that I perform on the original *rile* variable. Note that both measures of party positions take into account the relative emphasis that a given party is giving to this dimension since it employs the percentages of quasi-sentences. Thus, both measures of party positions are in line with the salience theory of issue competition (Laver and Garry 2000, Budge et al 2001, Alonso 2012)

On the other hand, in order to compute the party positions on the second dimension I also employ two alternative measures. The first one is the *decentralization* variable and it is calculated by simply subtracting *per302* (pro-centralization claims) from *per301* (pro-decentralization claims). Alternatively, the *territorial* position variable employs all the issues that belong to the broad territorial issue-scale dimension (Alonso, 2012). That is, it calculates the position of a given party on the second dimension by subtracting all the pro-centre salience scores from all the pro-periphery salience scores. Crucially, the broad *territorial* issue-scale dimension also includes parties' claims in relation to the evaluation of the national way of life and multiculturalism. Therefore, it better captures the territorial or centre-periphery cleavage (Alonso, 2012). For a full description of the *per* codes included in the territorial issue scale dimension see Table 4.12. Both measures of party positions on the 2nd dimension are also coherent with the salience theory of issue competition.

Indices of Legislative Salience for the Two Dimensions

But more broadly, in order to test my hypotheses I need to have a measure of how salient each of the two dimensions is in any given legislature. Therefore, I need information on both parties' preferences, which I just described, and parties' bargaining power in national parliaments. But most importantly, I argue that the coalition potential of a given party is best captured through its bargaining power rather than its mere seat share. In other words, one of the main novelties of this chapter is that it takes into account the coalition potential of parties in parliaments. As argued before, this is important since I want to focus on the bargaining power of all parties and not only on the role of those that are in cabinet. This is why I have calculated the *Banzhaf*, *Shapley-Shubik* and *Minimum Integer Weights* (MIWs) for each party in every legislature across the 18 countries and used them as weights for parties' preferences in each dimension (Felsenthal and Machover 1998, Taylor and Pacelli 2008). The voting power indices were calculated using the seat distribution data in the ParlGov database (Döring and Manow, 2011). This task is proved to be a very rewarding exercise in the results that follow.

Once I have parties' measures of coalition potential using the voting power indices, I can use them to weight the party positions previously described. The resulting indices are the main independent variables of interest: the *Indices of Legislative Salience* for each one of the two dimensions. The formulas to calculate them are the ones below. I provide the formulas only for the broad left-right and territorial dimensions, but note that I also calculated those legislative salience measures for the narrow welfare and decentralization issue-scale dimensions.

$$\text{Legislative Salience Left-Right Dimension}_t = $$

$$= \sum_{i=1}^{n} \left(\frac{\text{Coalition Bargaining Power}_i}{\sum_{i=1}^{n} \text{Coalition Bargaining Power}_i} \right) * \text{Left-right Position}_{i,t}$$

$$\text{Legislative Salience Territorial Dimension}_t = $$

$$= \sum_{i=1}^{n} \left(\frac{\text{Coalition Bargaining Power}_i}{\sum_{i=1}^{n} \text{Coalition Bargaining Power}_i} \right) * \text{Territorial Position}_{i,t}$$

The coalition bargaining power is imputed using (i) the *Banzhaf* voting power index, (ii) the *Shapley-Shubik* voting power index, and (iii) the *Minimum Integer Weights* (MIWs) for each party *i* of the *n* parties for which I have data in every given legislature at time *t*. Therefore, the legislative salience variables aggregate parties' preferences in a given dimension by weighting party positions with the coalition bargaining power. From that perspective, they measure the parliamentary salience of each dimension by taking into account both parties' claims and also parties' coalition potential. For example, the greater the bargaining power of parties with anti-welfare state expansion claims, the greater it is the legislative salience of the left-right dimension. On the other hand, the greater the bargaining power of parties with high pro-decentralization claims, the greater it is the legislative salience of the territorial dimension.

Another way to understand such measures is to interpret them as aggregated measures of partisanship at the parliamentary level for each one of the two dimensions. The legislative salience of the left-right dimension will be high when parties with right-wing oriented policy stances have bargaining power, whereas the legislative salience of the territorial dimension will be high when parties with pro-periphery claims have high coalition bargaining power. The same logic applies for the narrow issue-scale welfare

and decentralization dimensions. In that regard, these variables provide more encompassing measures of partisanship than the traditional and widely used government partisanship measures (Gross and Sigelman 1984, Cusack 1999, Schmidt 1996, Barnes 2013).

But most importantly, the above measures will allow me to compare the performance of the indices of legislative salience weighted by seat share against the legislative salience measures weighted by the *Banzhaf*, *Shapley-Shubik* and MIW power indices. That is, I also computed the legislative salience measures but using the seat share of parties instead of their coalition bargaining power. This is important from a substantive point of view since, fundamentally, I expect the mechanism to be working through coalition bargaining. In other words, I contend that what really matters is the bargaining power of parties in parliament. Therefore the ability of parties to be pivotal in parliaments should make a difference. Note that a very small variation in the seat distribution can cause very significant changes in the distribution of parties' bargaining power. Therefore, there should be significant differences in the results when using the coalition bargaining power measures instead of the seat share measures.

Figures 4.1 and 4.2 illustrate the legislative salience measures for the narrow issue-scale dimensions (welfare and decentralization) across the 18 parliamentary democracies under scrutiny. The legislative salience measures reported in the figures are the ones using the *Shapley-Shubik* voting power index. The figures illustrate the temporal variation across legislatures for each country. As can be seen, the amount of variation in the legislative salience of the two-dimensions is important both across countries and across legislatures. As expected, countries in which the regional identity dimension is more salient such as Canada, Spain or Italy exhibit the greatest amount of variation on the decentralization dimension. On the other hand, Figures 4.3 and 4.4 reproduce the same exercise but this time using the broad left-right and territorial dimensions.

An important concern with respect to the measures of legislative salience measures might be raised if the two-dimensions were not orthogonal and instead were highly correlated across legislatures. To address this challenge, in Figures 4.5 and 4.6 I plot the legislative salience measures in a two-dimensional space for all the legislatures for which I have information. Regarding Figure 4.5, the correlation between the legislative salience of the welfare and decentralization dimensions is not significant. On the other hand, Figure 4.6 shows a slight negative correlation between the legislative salience of the left-right dimension (on the horizontal axis) and the legislative salience of the territorial dimension (on the vertical axis). That is, those legislatures that are more "right-wing oriented" tend to be slightly more "pro-centralization". However, this does not raise a fundamental challenge since the amount of variation across legislatures is still very remarkable and, especially, if the modest negative correlation has any effect on the analyses that follow is precisely to impose a harder test of my hypotheses. That is, since I will be looking at to what extent the legislative salience of the 2nd dimension has a negative effect on redistribution on top of the left-right dimension; a negative correlation among the two might be biasing downwards the estimates.

4.3 Methodology and Empirical Strategy

The models discussed here use legislatures as observations. This obviously generated problems in merging the various sources of data. The rule of thumb was to consider that the starting year of a legislature was the year of elections unless they were held after June 30th, in which case the following year was chosen as the legislature's starting year. The end year for the legislature followed the same "half-a-year" logic. On the other hand, the data I employ has a time-series-cross-section (TSCS) structure (Beck and Katz, 2009). Accordingly, I use several dynamic models to estimate dynamic effects and in particular to identify how certain

configurations of the legislative make changes in policy outcomes more or less likely, and in which direction.

Specifically, I estimate two types of models. First, I estimate random effects (RE) models across legislatures. Next, I estimate fixed effects (FE) models that exploit only within country-variation across different legislatures. I prefer the latter models because arguably they provide a more rigorous test of the hypotheses. The random-effects models include a lagged dependent variable to take into account the serial correlation in the Dependent Variables DVs of interest. Also, note that all the models are estimated using panel-corrected standard errors (PCSE) and correct for groupwise heteroscedasticity and contemporaneous correlation. To model the serial correlation in the error terms, the estimations also include a Prais-Winsten correction for a panel-specific AR(1) process in the disturbances. All models also include year dummies.

Finally, it is also important to reiterate that I am not simply looking at formal coalitions that form a given cabinet. Instead, I am using measures of legislative salience for each dimension that take into account the preferences and bargaining power of all parties with political representation in national parliaments – hence, also for outside cabinet parties. This is crucial since oftentimes 2nd dimension-based parties do not participate in cabinets but instead influence policy-making through their ability to provide key legislative support. Therefore, only looking at formal coalition governments would severely underestimate the effects of two-dimensional legislative bargaining in parliaments. That is the reason why I employ the legislative salience measures that take into account the coalition potential of all parties in a given legislature.

4.4 Main Results

4.4.1 Some Preliminaries

The legislative salience of the 2nd dimension should impact fiscal choices in a given inter-election period when parties embrace coalition bargaining. Thus, the main independent variable of interest is the interaction term between the legislative salience of the 2nd dimension and a proxy for coalition bargaining. It will be in those circumstances that 2nd dimension-based parties will be able to bargain over lower redistribution and extract side-payments in the form of greater regionalisation of public policy. That is the reason why I need some empirical proxies to measure the extent to which coalition bargaining is likely to happen in a given parliament.

Across my analyses I employ two proxies for coalition bargaining. On the one hand, I use the index of proportionality. Admittedly, this is a raw proxy but it is nonetheless informative since one should expect less coalition bargaining in parliamentary democracies with majoritarian systems and (most likely) two-party systems. At the other extreme, highly proportional multiparty systems obviously tend to generate higher levels of coalition bargaining in parliaments. But most importantly, the use of the proportionality index is also useful since it enables me to test the standard argument in the literature according to which proportional systems redistribute more when party competition is one-dimensional (Iversen and Soskice 2006).

On the other hand, I also use a more fine-grained proxy for coalition bargaining in national parliaments: the requirement of an `investiture vote´ from the legislature. This dummy variable that takes value 1 if a vote of confidence from the legislature has to be passed when the programme of the government is established and 0 if not. The expectation being that when an investiture vote from the legislature is needed parties in government will need to forge a stable legislative majority, and therefore coalition bargaining will be necessary, except in those cases in which a single party controls

an absolute majority of seats in parliament. However, single-party majority governments represent a small fraction of the cases in parliamentary democracies according to Strøm and Nyblade (2007).

Before describing the results, note that models (4.1.1)-(4.1.4) in Table 4.1 use different weights to compute the legislative salience measures of the welfare and decentralisation issue-scales dimensions. That is, the preferences of parties are weighted by the different measures of bargaining power across models. Specifically, Model (4.1.1) employs simple seat share weights; models (4.1.2) and (4.1.3) use the *Banzhaf* and *Shapley-Shubik* voting power indices; and model (4.1.4) employs the minimum integer weights (MIWs). Most importantly, I expect that the measures of legislative salience weighted by the bargaining power of parties (*Banzhaf*, *Shapley-Shubik* and MIWs) should outperform the simple seat share weighted measure. Naturally, if the mechanism at work is legislative bargaining then the measure of influence that should have an impact is the coalition potential of a given party in a given legislature.

4.4.2 Legislative Bargaining and Public Social Spending

Table 4.1 presents the first results in which public social spending is regressed on a series of standard control variables plus a set of variables that refer to the prevalence of legislative coalition bargaining. Specifically, I include the legislative salience of the 1st welfare dimension, the legislative salience of the decentralisation 2nd dimension as well as an interaction term between the legislative salience of the decentralisation dimension and the proportionality index (Gallagher, 1991). The legislative salience measures are those that use the narrow issue-scale dimensions: the welfare and decentralisation dimensions.

First, model (4.1.1) explores the effect of the legislative salience of the decentralisation dimension on changes in public social spending using the seat share weights. Interestingly, the

interaction term between proportionality and the parliamentary salience of the 2nd dimension is not statistically significant. However, in models (4.1.2), (4.1.3) the coefficient for the interaction term between the legislative salience of the decentralisation dimension and the index of proportionality is negative and highly significant. This means that when the legislative salience of the decentralisation dimension is computed using the *Banzhaf* and the *Shapley-Shubik* power indices it has a negative effect on social spending when the levels of proportionality are high. This is a crucial first result.

Specifically, this last result means that an increase in the legislative salience of the 2nd dimension is associated with a decline in public social spending when proportionality is high. In other words, when parties with preferences towards decentralisation have coalition bargaining power in a given legislature, national social spending is likely to fall. Similarly, in model (4.1.4) I find a very robust negative effect of the legislative salience of the decentralisation dimension in proportional systems when using minimum integer weights. Note, however, that in models (4.1.2)-(4.1.4) the main effect for proportionality is positive and significant, which means that proportionality is associated with an increase in national social spending when the 2nd dimension is not salient in parliaments That is, the "left-bias" of PR is maintained when the 2nd dimension has no bargaining power in parliaments.

In Table 4.2, I estimate the same random effects models but this time employing the broadly defined issue-scale dimensions: the left-right and territorial dimensions. Arguably these issue-scale dimensions are preferable since they take into account not only decentralisation preferences but also the extent to which parties' preferences in parliaments negatively evaluate the national way of life and value multiculturalism–i.e. other core issues of the centre-periphery cleavage (Alonso, 2012). Now the interaction term between the legislative salience of the territorial dimension and the index of proportionality is robust and significant across all models (4.2.1)-(4.2.4). Interestingly, though, the magnitude of the

coefficient is lower in model (4.2.1) when the simple seat shares are used.

In Table 4.3 I make use of the investiture vote dummy as an empirical proxy for coalition bargaining. The results are striking and very similar to the pattern described in Tables 4.1 and 4.2. When I employ the seat share weights to compute the salience of the decentralisation dimension I do not observe a statistically significant effect for the interaction term. However, in models (4.3.2), (4.3.3) and (4.3.4) I actually observe a very robust negative effect. This result means that an increase in the legislative salience of decentralisation issues is associated with a decline in public social spending in those legislatures in which an investiture vote is required. But again this is only the case when the legislative salience of the 2nd dimension is computed employing the bargaining weights of parties in parliaments (*Banzhaf*, *Shapley-Shubik* or *Minimum Integer weights*). This is also a very remarkable result.

Regarding the control variables, Gross Domestic Product (GDP) growth is as expected negatively associated with national social spending in all models –this is most likely the result of correcting for the denominator effect given that the dependent variable is measured as a percentage of GDP (Lupu and Pontusson, 2011). Union density is positively associated with national social spending only in models of Table 4.2. On the other hand, levels of voters' turnout are robustly associated with national social spending. Female labour participation has a strong positive effect on national social spending across all models (Iversen and Rosenbluth, 2006). Likewise, the globalisation Dreher (2006) index and the vocational training measure are also robustly associated with social expenditures in all specifications.

However, there are also controls that exhibit different results compared to those of Lupu and Pontusson (2011). Specifically, unemployment is positively associated with social expenditures possibly as a result of automatic stabilisers. The percentage of the elderly population is robustly and positively associated with national social sending in specifications of Tables 4.1 and 4.2.

This result calls into question the alleged trade-off between spending on the elderly versus the rest of the population. Instead, it points towards the direction of a correlation between overall national social spending and targeted spending towards the elderly.

But more importantly, in my models the effect of proportionality on public social spending is contingent upon the legislative salience of the 2nd dimension. Note that the main effects for proportionality are positive and significant in most models of Table 4.1. These results are coherent with the new mechanism I am putting forward here. When decentralisation issues are not salient in parliaments the effect of proportionality is positive and significant, but instead when the legislative salience of the 2nd dimension increases the effect of proportionality switches because of two-dimensional coalition bargaining. Later I will return to this in more detail.

It is important to emphasise that the results in Tables 4.1, 4.2 and 4.3 are not dependent on the inclusion of the lagged dependent variable. As explained, I have included the Lagged Dependent Variable (LDV) in order to control for the serial correlation of the dependent variable. However, it is true that I have a low number of observations for each country. The minimum number of legislatures is 5 and the maximum is 9, with an average of 6.5. Therefore, one might argue that the inclusion of the LDV is likely to induce biases. Instead, when the LDV is excluded the average number of observations rises to 7.5. But since the results are the same with or without the LDV, I have decided to illustrate the results with it because it makes the interpretation of the estimated coefficients more meaningful: they provide an estimate for the expected increase (or decrease) during a given inter-election period.

4.4.3 Legislative Bargaining and Economic Self Rule

In this section I explore the way in which legislative coalition bargaining affects the other policy outcome of interest, namely the dynamics of economic self-rule or regionalisation of public policy. As explained before, by economic-self-rule I refer to effective regional autonomy over economic policies measured in terms of taxes, spending powers and regulatory capacity at the regional level. The expectation being that a greater legislative salience of the territorial 2nd dimension should be associated with an increase in the levels of economic self-rule across legislatures.

In Table 4.4 I employ the narrow issue-scale dimensions: the welfare and decentralisation dimensions. However note that, most strikingly, the results reverse and now the interaction between the legislative salience of the 2nd dimension and the proportionality index is positive and significant across all models of Table 4.4. That is, the evidence suggests that when parties with pro-decentralisation preferences have coalition bargaining power in national parliaments the levels of economic self-rule are likely to increase.

Perhaps unexpectedly, the interaction term is also positive and significant in model (4.1) when I calculate the legislative salience of the 2nd dimension by simply using the seat share weights. However, it is remarkable that the coefficients are estimated with much more precisions in models (4.4.2), (4.4.3) and (4.4.4) when instead I use the bargaining weights. In other words, I can conclude that when proportionality is high, the coalition potential of parties with pro-decentralisation preferences is a crucial factor that explains the dynamics of economic self-rule. This is the mirror image of the results described regarding public social spending.

On the other hand, in models (4.5.1)-(4.5.4) of Table 4.5 I estimate the very same models but this time using the broadly defined issue-scale dimensions. That is, I employ the measures of legislative salience for the broad left-right and territorial

dimensions. Interestingly, the same patterns emerge. The interaction term between the legislative salience of the territorial dimension and the index of proportionality is positive and significant on all specifications. But also it is estimated with greater precision in models (4.5.2)-(4.5.4) when the legislative bargaining weights are used. These results mean that when parties with pro-periphery preferences have bargaining power, economic self-rule is likely to increase.

Regarding the control variables in Tables 4.3 and 4.5, only two variables exhibit consistent positive effects on the dynamics of economic self-rule. On the one hand, the population regional concentration variable is positively associated with changes in economic self-rule. That is, countries in which the population is regionally concentrated are more likely to enjoy increases in the levels of economic power at the regional level. On the other hand, and also as expected, positive changes in economic self-rule are more likely in countries with higher levels of ethno-cultural diversity (Fearon, 2003). Perhaps more surprisingly, the inter-regional inequality variable is not associated with changes in economic self-rule. However, this result is possibly driven by the limited number of legislature-based observations and over-time variation.

In Table 4.6 I use the investitures vote legislative procedure. Analogously to the specifications in Table 4.3, I use the narrow issue-scale dimensions to compute the legislative salience of the first and second dimensions. Note, however, that in order to increase the number of available legislature-based observations in the specifications in Table 4.6 I do not include the same control variables as in Tables 4.4 and 4.5. The specifications, though, follow the same logic –namely, they include the LDV and year dummies.

A familiar pattern emerges again in Table 4.6. When I employ the simple seat share weights the interaction term between the legislative salience of the decentralisation dimension and the investiture vote dummy is not statistically significant. However, when in models (4.6.2)-(4.6.4) I use the legislative bargaining

weights –*Banzhaf*, *Shapley-Shubik* and MIWs– to compute the parliamentary salience of each dimension I obtain highly significant results. Altogether, this first set of empirical result clearly point towards the existence of two-dimensional coalition bargaining among parties in parliaments.

4.5 Further Results

In order to double-check my previous results in this section I undertake a series of robustness checks. Most importantly, instead of estimating the models with random-effects specifications I use now `dynamic fixed effects´ (FE) models with both country fixed effects and year dummies. Arguably, the models in this section are more demanding and therefore provide a harder test of the hypotheses. The main difference is that FE models use only within-country variation, which in my models means variation in legislative configurations across time (elections), to estimate the average effect of the legislative salience of the territorial-identity dimension on public social spending and economic self-rule.

4.5.1 Public Social Spending: Fixed Effects Models

Models in Table 4.7 estimate fixed effects models, which include country fixed effects and year dummies. The main difference with respect to the previous random effects models is that now the specifications do not include the LDV due to the low number of average legislatures within countries. On the other hand, I employ the narrow issue-scale dimensions: the welfare and decentralisation dimensions. However, the novelty here is that I also include controls for: (i) the structure of inequality (the skew variable, which is the 90-50 ratio in gross earnings divided by the 50-10 ratios); and (ii) levels of inequality (the 90^{th}-10^{th} percentiles ratio in gross earnings inequality). Recall that the fixed effects

models are vulnerable to omitted variable biases due to time-varying unobserved factors. Thus, both the structure and the levels of inequality are time-varying factors that might still be biasing the results (Lupu and Pontusson, 2011). Finally, I include the GDP growth variable in order to correct for the denominator effect of the dependent variable as well as the unemployment control to account for the role of automatic stabilisers.

In Table 4.7 the interaction term is negative and significant in models (4.7.1) and (4.7.3) but not in model (4.7.2). But interestingly, the results are much more robust when instead I use the broad issue-scale dimensions in Table 4.8. Now the interaction term between the legislative salience of the 2nd dimension and the proportionality index is negative and highly significant across all specifications (using *Banzhaf*, *Shapley-Shubik* and the MIWs). These results confirm that when proportionality is high a greater legislative salience of the 2nd dimension is associated with lower national social spending. It is worth emphasising that the results are not dependent on the inclusion of any particular country. In fact, the results are robust to the exclusion of the two semi-presidential democracies: France and Finland.

On the other hand, the results for the structure of inequality and the levels of inequality are particularly interesting. First, the results confirm that the structure of inequality is an important determinant of redistribution and social expenditure. That is, the skew variable –which measures the income distance between the middle and the poor relative to the distance between the middle and the rich-, is robustly associated with higher levels of national social spending. Interestingly, Lupu and Pontusson (2011) argue that they expect an effect of the structure of inequality on redistribution in the absence of alternative cross-cutting ethnic cleavages. However, even when I take into account the legislative salience of the territorial dimension the effect of the structure of inequality remains.

But even more surprisingly, I also find a robust positive effect of the levels of inequality on social expenditure, which is coherent with the traditional Meltzer and Richard (1981) model. However,

many previous cross-country studies have failed in providing supporting evidence for a positive association between inequality and redistribution. Notwithstanding, in Tables 4.7 and 4.8 the gross earnings inequality variable is robustly associated with social expenditure. Interestingly enough, once two-dimensional legislative bargaining is taken into account by incorporating the territorial cleavage, the effect of inequality re-emerges. Overall, the results suggest that by adding the salience of the territorial 2nd dimension as a determinant of redistribution I am not diminishing the importance of the inequality variables but instead I might be providing better specifications.

4.5.2 Economic Self Rule: Dynamic Fixed Effects Models

In Table 4.9 I analyse how two-dimensional legislative bargaining affects the dynamics of economic self-rule at the regional level this time with fixed-effects models. Again, the models include both country fixed effects and year dummies. However, given that I have a higher number of legislature-based observations within countries, this time I include the lagged dependent variable. Note that, on average, I have 8.6 legislatures for each country, since the temporal series for the economic self-rule dependent variable covers a much longer time period, namely from 1967 to 2000.

Models in Table 4.9 employ the narrow issue-scale dimensions: the welfare and decentralisation dimensions. Also, I use the proportionality index as a proxy for coalition bargaining. Interestingly, the interaction term is positive and significant in all three specifications. The results imply that a greater legislative salience of the decentralisation issue-scale dimension is associated with positive changes in economic self-rule at the regional level across legislatures. However, the coefficients are estimated without much precision.

The results though are again much more robust in Table 4.10 when I employ the broad issue-scale dimensions. Now the interaction term between the legislative salience of the territorial dimension and the proportionality index is estimated with precision across the three specifications. Thus, the results clearly indicate that a greater legislative salience of the territorial dimension is associated with a positive increase in economic powers at the regional level when proportionality is high. Again, these results suggests that in order to account for the effects of the salience of the territorial 2nd dimension, it is important to analyse not only parties' preferences for or against decentralisation but also the extent to which parties defend minority cultures and oppose the national way of life (Alonso, 2012).

4.6 An Illustration of the Main Findings

In order to illustrate the main results, I plot the marginal effects of the legislative salience of the territorial dimension on the two outcomes of interest: public social spending and economic self-rule. First, Figure 4.7 plots the marginal effect of the legislative salience of the territorial 2nd dimension on social spending conditional to the levels of proportionality. The vertical axis on the left-hand side represents the marginal effect of the 2nd dimension whereas the vertical axis on the right-hand side represents the density values for the estimated kernel density function of proportionality. Also, I include a vertical line for the mean value of proportionality. The plot employs the estimated coefficient in the fixed effects model (4.8.2), where the *Shapley-Shubik* bargaining weights are used.

The interpretation of Figure 4.7 is straightforward: the marginal effect of the legislative salience of the territorial second dimension on public social spending is negative and significant when proportionality levels are above the mean. However, the marginal effect of the salience of the 2nd dimension is not statistically significant when proportionality levels are below the average. The kernel density estimate of proportionality clearly

shows the higher density of those legislatures in which the proportionality levels are high. In other words, the density function for proportionality has a negatively skewed distribution. This implies that across the sample the median level of proportionality is greater than the average.

Therefore, I can safely conclude that for median levels of proportionality in parliamentary democracies the marginal effect of the legislative salience of the 2nd dimension on public social spending is negative and significant. This result provides very strong supporting evidence for my first hypothesis. It is also interesting to emphasise, the decreasing marginal effect of the legislative salience of the 2nd dimension conditional to proportionality, which implies that as proportionality increases the marginal effect becomes increasingly negative. This decreasing marginal effect is coherent with my third hypothesis, which states that the effect of the legislative salience of the 2nd dimension should be conditional on the extent of coalition bargaining among parties in parliaments.

On the other hand, the reverse is true when in Figure 4.8 I plot the marginal effect of the legislative salience of the territorial dimension on economic self-rule. Figure 4.8 plots the marginal effect by using the estimated coefficients in model (4.10.2), which also employs the *Shapley-Shubik* weights. This time the vertical axis on the left-hand side reports the marginal effect whereas the vertical axis on the right-hand side represents the density values for the estimated kernel density function of proportionality. The crucial result, though, is that the mirror image emerges: the marginal effect of the legislative salience of the territorial 2nd dimension is now positive and significant when proportionality levels are above the mean and not statistically significant otherwise.

Thus, I can conclude that for median levels of proportionality the legislative salience of the territorial 2nd dimension has a positive marginal effect on economic self-rule. This result provides empirical support for my second hypothesis. However, in this case it is worth emphasising the increasing marginal effect of

the legislative salience of the 2nd dimension on economic self-rule: as proportionality increases the marginal effect becomes stronger. Therefore, this result also provides strong support for my third hypothesis according to which the effects of the legislative salience of the territorial cleavage should be conditional on coalition bargaining among parties in parliaments.

An alternative way to look at the results is to plot the marginal effect of proportionality on national social spending as a function of the legislative salience of the territorial dimension. That is, to plot the same interaction term as in Figure 4.7 but this time representing the marginal effect of proportionality conditional to the salience of the 2nd dimension. Figure 4.9 does this alternative exercise by again using the estimated coefficients in the fixed-effects model (4.8.2). Now the right-hand side axis represents the kernel density estimate for the legislative salience of the territorial dimension. Interestingly, the density function for the parliamentary salience of the 2nd dimension follows a normal distribution, although it is slightly positively skewed. The mean value for the legislative salience of the territorial dimension is 1.43 and the median is slightly lower.

In Figure 4.9, most crucially, when the legislative salience of the territorial dimension is 0 the marginal effect of proportionality on social expenditures is positive and significant. This illustrates the so-called "left-bias" of PR. In other words, when politics are uni-dimensional and therefore the 2nd dimension is not salient it is true that the marginal effect of proportionality on social expenditures is positive and significant as predicted by Iversen and Soskice (2006). However, as the legislative salience of the territorial 2nd dimension increases the marginal effect of proportionality diminishes until the point in which the effect of proportionality switches and becomes negative. In fact, proportionality is no longer significative as soon as the 2nd dimension becomes salient. This figure provides a nice illustration of the alternative hypothesis that I am posing here.

4.7 Concluding Remarks

In this chapter I have explored the empirical implications of the dissertation at the legislative stage. Specifically, I have analysed the way in which the legislative salience of the territorial dimension affects the dynamics of two fiscal choices in parliamentary democracies: public social spending and economic self-rule at the regional level. The main expectation being that a greater legislative salience of the territorial second dimension should be associated with a decline in public social spending and an increase in economic self-rule by regions. More specifically, I have argued that the effects of the legislative salience of the second dimension should be contingent upon coalition bargaining among parties in parliaments. Recall that in the theoretical chapter parties are assumed to bargain in a given legislature over the provision of overall redistribution and the provision of territorial goods at the regional level.

To operationalise the dependent variables in legislature-based models I have used various empirical proxies for redistribution and the provision of territorial goods. On the one hand, following Lupu and Pontusson (2011), I have employed the OECD social expenditures database as a proxy for overall redistribution. The social expenditures data is useful since it highly correlates with standard measures of redistribution from the LIS dataset. Moreover, the components of the social expenditures dataset refer mainly to spending categories that are highly nationalised. That is the reason why oftentimes I have referred to social expenditures as national social spending.

In order to test the hypotheses I have employed legislature-based models across 18 parliamentary and semi-presidential democracies. But most importantly, I have constructed various indices that aggregate the legislative saliences of each dimension by taking into account: (i) the preferences and (ii) the bargaining power of parties in national parliaments. Specifically, I have computed the legislative saliences measures in each parliament by weighting the preferences of parties in a given issue-scale

dimension by their seat share, *Banzhaf*, *Shapley-Shubik* and Minimum Integer weights (MIWs).

To measure the prevalence of coalition bargaining I have used two proxies: the index of proportionality itself and also an investiture vote dummy when an investiture vote from the legislature is required. The first has been also useful to test the standard argument in the literature (Iversen and Soskice 2006, Persson, Roland and Tabellini 2007) according to which PR multiparty parliamentary democracies redistribute more; whereas my alternative hypothesis is that PR systems with coalition bargaining actually redistribute less when the territorial-identity cleavage is salient.

The results have provided robust empirical evidence indicating that a greater legislative salience of the territorial or centre-periphery cleavage has profound implications with respect to the dynamics of the overall provision of public social spending and also the levels of economic self-rule. But, most interestingly, the results suggest that two requisites are needed for the territorial 2nd dimension to have an impact on fiscal choices: (i) parties with strong territorial-identity based preferences must have enough legislative bargaining power; and (ii) effective coalition bargaining among parties in parliaments is needed, either because proportionality levels are high or because an investiture vote is required.

Overall, the results presented in this chapter points towards the existence of an important trade-off in parliamentary democracies between the provision of national public goods and the degree of territorialisation, which is fundamentally driven by the dimensionality of the political space –or, more precisely, by the legislative salience of the territorial-identity cleavage. If the legislative salience of the territorial dimension is low, then the standard results according to which multiparty PR democracies redistribute more hold. However, when the legislative salience of the territorial cleavage increases the provision of national public goods decreases and the territorialisation of goods rises. Crucially, the more salient the territorial cleavage is in parliaments, the

greater the likelihood that the trade-off is resolved in favour of territorialisation. Therefore, the "left-bias" of PR vanishes when the territorial-identity dimension is salient in parliaments.

Interestingly, once I have accounted for the legislative salience of the territorial cleavage the effects of the structure of inequality (Lupu and Pontusson, 2011) and the levels of inequality (Meltzer and Richard, 1981) instead of disappearing have been reinforced. Thus, the results might be indicative that indeed two-dimensional party competition coexists with income-based cleavages. In future work I plan to explore the way in which territorial dimension based politics interact with the structure of inequality within and between groups. In fact, it is a pending question in the literature to disentangle the conditions under which second dimension politics reinforce the overall levels of inequality by mobilising voters through group-based politics (Huber and Ting 2012, Huber et al 2012).

Note that the results in this chapter fundamentally challenge some of the conventional wisdoms in the literature. Specifically, they show that it is not always the case that PR multiparty democracies redistribute more. In fact, the effect of proportionality is crucially contingent upon the legislative salience of the territorial cleavage. And most surprisingly, the effect of PR can even switch and become negative when the territorial issue-scale dimension is highly salient. That is, when second dimension-based political parties have high levels of legislative bargaining power in national parliaments. This is the case because arguably proportionality has a "dark side" which basically opens up the dimensionality of the political space and allows second dimension politics and promotes coalition bargaining.

Figure 4.1: Legislative Salience of the Welfare Dimension Across 18 OECD Parliamentary Democracies

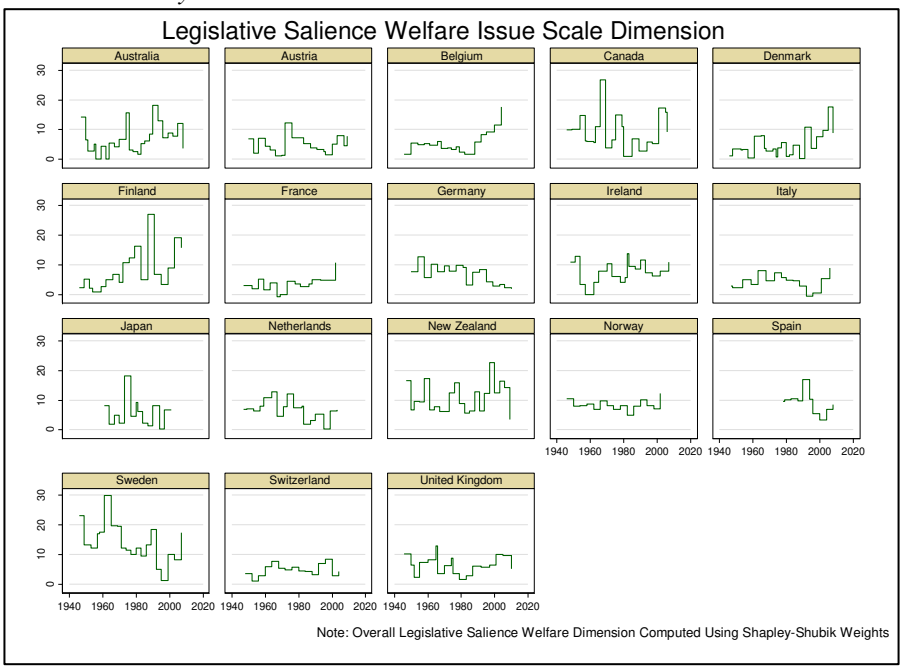


Figure 4. 2: Legislative Salience of the Decentralization Dimension across 18 OECD Parliamentary Democracies

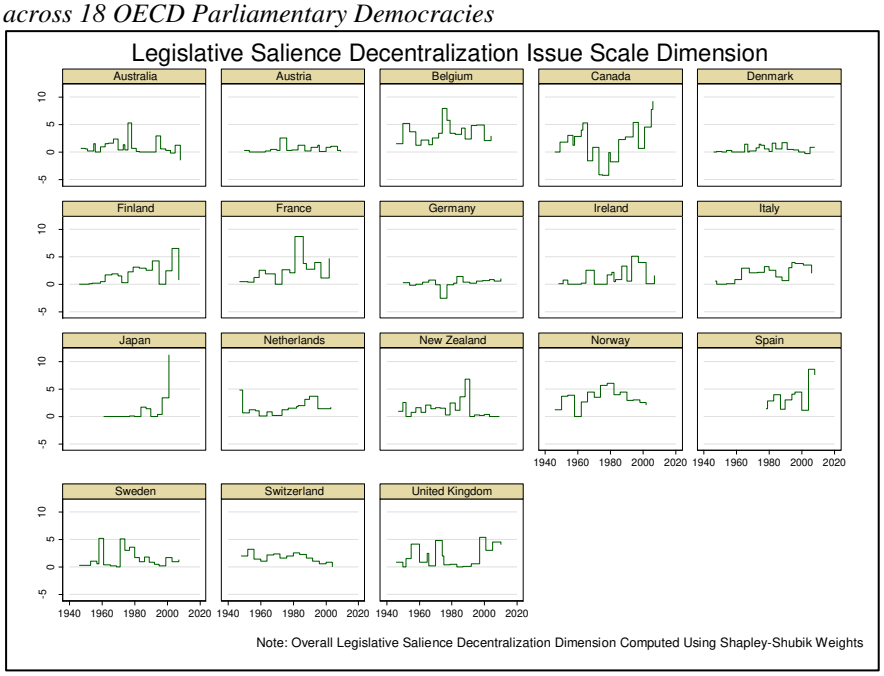


Figure 4.3: Legislative Salience of the Left-Right Dimension across 18 OECD Parliamentary Democracies

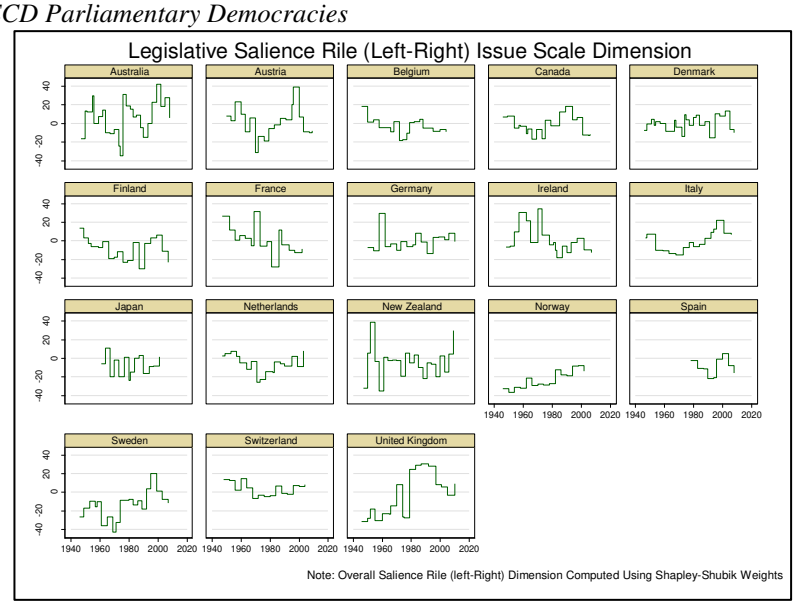


Figure 4.4: Legislative Salience of the Territorial Dimension across 18 OECD Parliamentary Democracies

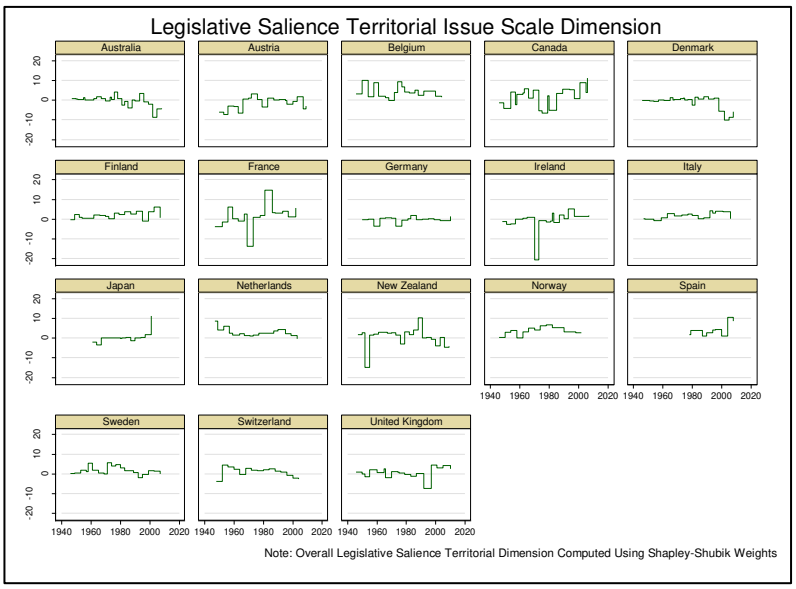


Figure 4. 5: Legislative Positions. Welfare and Decentralization Dimensions

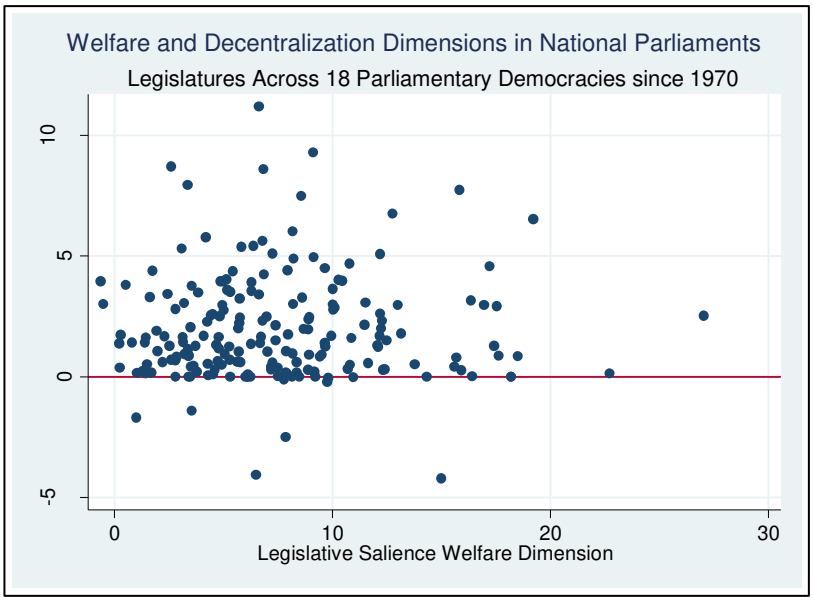


Figure 4.6: Legislative Positions. Left-Right and Territorial Dimensions

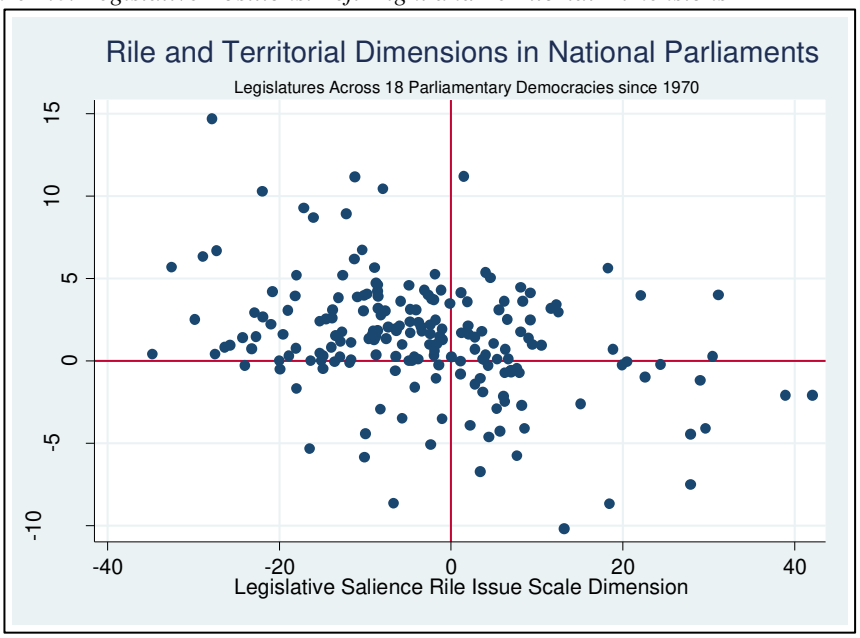


Table 4.1: Coalition Bargaining Test, Public Soc.Spending, Welfare and Decentralization

DV: Public Social Spending	**(4.1.1)** ***Seats***	**(4.1.2)** ***Banzhaf***	**(4.1.3)** ***ShSh***	**(4.1.4)** ***MIW***
Random Effects Models				
Lagged Dependent Variable	0.727***	0.708***	0.709***	0.707***
	(0.044)	(0.039)	(0.039)	(0.039)
Coalition Bargaining Test				
Proportionality (PR)	0.717	1.237**	1.239**	1.303**
	(0.754)	(0.552)	(0.551)	(0.554)
Legislative Salience WelfareDim	0.053**	0.052***	0.052***	0.056***
	(0.022)	(0.018)	(0.018)	(0.019)
Legislative Salience Decentr Dim	0.247	0.485***	0.488***	0.509***
	(0.175)	(0.135)	(0.134)	(0.135)
Leg. Salience 2nd Dim X PR	-0.236	-0.479***	-0.478***	-0.519***
	(0.235)	(0.184)	(0.183)	(0.186)
Controls				
GDP Growth	-0.386***	-0.364***	-0.363***	-0.361***
	(0.077)	(0.071)	(0.071)	(0.071)
Unemployment	0.043	0.036	0.035	0.032
	(0.029)	(0.026)	(0.026)	(0.026)
Unionization	0.009	0.009	0.009	0.009*
	(0.006)	(0.006)	(0.005)	(0.006)
Voter Turnout	0.014	0.017**	0.017**	0.018**
	(0.009)	(0.008)	(0.008)	(0.008)
Female Labour	0.028*	0.030**	0.030**	0.030**
	(0.014)	(0.013)	(0.013)	(0.012)
Globalization	0.020*	0.028**	0.028**	0.028***
	(0.012)	(0.011)	(0.011)	(0.011)
Vocational Training	0.028***	0.024***	0.024***	0.025***
	(0.009)	(0.008)	(0.008)	(0.008)
Elderly	0.074**	0.072**	0.073**	0.073**
	(0.034)	(0.033)	(0.033)	(0.035)
Constant	-2.480	-3.675**	-3.710**	-3.818***
	(1.688)	(1.475)	(1.469)	(1.463)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**116**	**116**	**116**	**116**
R-squared	**0.987**	**0.990**	**0.990**	**0.990**
Number of Countries	**18**	**18**	**18**	**18**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.2: Coalition Bargaining Test, Public Social Spending, Left-Right and Territorial

DV: Public Social Spending	**(4.2.1)** ***Seats***	**(4.2.2)** ***Banzhaf***	**(4.2.3)** ***ShSh***	**(4.2.4)** ***MIW***
Random Effects Models				
Lagged Dependent Variable	0.676***	0.650***	0.650***	0.650***
	(0.044)	(0.041)	(0.040)	(0.040)
Coalition Bargaining Test				
Proportionality (PR)	0.586	0.606	0.616	0.580
	(0.533)	(0.491)	(0.490)	(0.484)
Legislative Salience LR Dim	-0.038***	-0.020**	-0.020**	-0.023***
	(0.010)	(0.008)	(0.008)	(0.008)
Legislative Salience Territ. Dim	0.239**	0.335***	0.337***	0.336***
	(0.095)	(0.077)	(0.077)	(0.077)
Leg. Salience 2nd Dim X PR	-0.364***	-0.426***	-0.426***	-0.437***
	(0.131)	(0.100)	(0.101)	(0.101)
Controls				
GDP Growth	-0.396***	-0.378***	-0.378***	-0.367***
	(0.076)	(0.069)	(0.069)	(0.069)
Unemployment	0.051*	0.046*	0.046*	0.044*
	(0.029)	(0.025)	(0.025)	(0.025)
Unionization	0.014**	0.015**	0.015***	0.014**
	(0.006)	(0.006)	(0.006)	(0.006)
Voter Turnout	0.030***	0.027***	0.028***	0.029***
	(0.009)	(0.009)	(0.009)	(0.009)
Female Labour	0.028**	0.027**	0.028**	0.029**
	(0.012)	(0.012)	(0.012)	(0.012)
Globalization	0.037***	0.044***	0.044***	0.046***
	(0.012)	(0.011)	(0.011)	(0.011)
Vocational Training	0.024***	0.022***	0.022***	0.021***
	(0.009)	(0.008)	(0.008)	(0.008)
Elderly	0.095***	0.090***	0.091***	0.099***
	(0.036)	(0.033)	(0.033)	(0.034)
Constant	-4.511***	-4.518***	-4.635***	-4.891***
	(1.529)	(1.350)	(1.351)	(1.352)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**116**	**116**	**116**	**116**
R-squared	**0.988**	**0.990**	**0.990**	**0.991**
Numer of Countries	**18**	**18**	**18**	**18**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.3: Coalition Bargaining Test, Public Social Spending, Investiture Vote

DV: Public Social Spending	**(4.3.1)** ***Seats***	**(4.3.2)** ***Banzhaf***	**(4.3.3)** ***ShSh***	**(4.3.4)** ***MIW***
Random Effects Models				
Lagged Dependent Variable	0.696***	0.676***	0.676***	0.674***
	(0.054)	(0.046)	(0.046)	(0.046)
Coalition Bargaining Test				
Investiture Vote Dummy	0.822**	1.273***	1.275***	1.265***
	(0.396)	(0.352)	(0.354)	(0.358)
Legislative Salience Welfare Dim	0.058**	0.053***	0.053***	0.059***
	(0.024)	(0.019)	(0.019)	(0.021)
Legislative Salience Decentr.Dim	0.079	0.245***	0.247***	0.242***
	(0.068)	(0.063)	(0.063)	(0.064)
Leg. Salience 2nd Dim X Investiture	-0.016	-0.240**	-0.236**	-0.241**
	(0.134)	(0.109)	(0.109)	(0.103)
Controls				
GDP Growth	-0.469***	-0.414***	-0.415***	-0.415***
	(0.075)	(0.067)	(0.067)	(0.067)
Unemployment	0.006	-0.000	-0.001	-0.000
	(0.033)	(0.031)	(0.031)	(0.031)
Unionization	-0.003	-0.005	-0.005	-0.005
	(0.007)	(0.007)	(0.007)	(0.007)
Voter Turnout	-0.010	-0.001	-0.001	-0.001
	(0.011)	(0.010)	(0.010)	(0.010)
Female Labour	0.058***	0.059***	0.059***	0.059***
	(0.016)	(0.015)	(0.015)	(0.015)
Globalization	0.040***	0.045***	0.045***	0.045***
	(0.015)	(0.014)	(0.014)	(0.014)
Vocational Training	0.030***	0.028***	0.028***	0.029***
	(0.010)	(0.008)	(0.008)	(0.008)
Elderly	0.001	0.002	0.002	0.007
	(0.037)	(0.036)	(0.036)	(0.038)
Constant	-1.317	-2.366*	-2.419**	-2.440**
	(1.275)	(1.236)	(1.232)	(1.229)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**110**	**110**	**110**	**110**
R-squared	**0.986**	**0.988**	**0.988**	**0.988**
Numer of Countries	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.4: Coalition Bargaining Test, Economic Self Rule, Welfare and Decentralization

DV: Economic Self Rule	**(4.4.1)** ***Seats***	**(4.4.2)** ***Banzhaf***	**(4.4.3)** ***ShapleyShub***	**(4.4.4)** ***MIW***
Random Effects Models				
Lagged Dependent Variable	0.950***	0.952**	0.954***	0.961*
	(0.013)	(0.012)	(0.012)	(0.012)
Coalition Bargaining Test				
Proportionality (PR)	-0.423	-0.866	-0.772	-1.235
	(1.538)	(1.019)	(1.032)	(0.970)
Legislative Salience Welfare Dim	0.125***	0.079**	0.080***	0.086*
	(0.033)	(0.027)	(0.027)	(0.028)
Legislative Salience Decentr.Dim	-0.094	-0.080	-0.066	-0.142
	(0.318)	(0.199)	(0.200)	(0.189)
Leg. Salience 2nd Dim X PR	0.740**	0.801**	0.773***	0.914*
	(0.368)	(0.270)	(0.270)	(0.266)
Controls				
GDP Growth	-0.185**	-0.124	-0.115	-0.106
	(0.092)	(0.086)	(0.088)	(0.085)
Inter-Regional Inequality	-0.007	-0.015	-0.011	-0.001
	(0.022)	(0.021)	(0.021)	(0.020)
Gini Regional Population	0.028*	0.030**	0.029**	0.026*
	(0.015)	(0.012)	(0.012)	(0.012)
Ethno-Cultural Diversity	3.525**	3.436**	3.330**	2.396
	(1.490)	(1.495)	(1.491)	(1.524)
Constant	-1.634	-1.148	-1.302	-0.803
	(1.965)	(1.454)	(1.462)	(1.365)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**92**	**92**	**92**	**92**
R-squared	**0.998**	**0.998**	**0.998**	**0.998**
Number of Countries	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.5: Coalition Bargaining Test, Economic Self Rule, Left-Right and Territorial

DV: Economic Self Rule	**(4.5.1)** ***Seats***	**(4.5.2)** ***Banzhaf***	**(4.5.3)** ***ShapleySh***	**(4.5.4)** ***MIW***
Random Effects Models				
Lagged Dependent Variable	0.945***	0.953***	0.953***	0.958***
	(0.012)	(0.014)	(0.014)	(0.013)
Coalition Bargaining Test				
Proportionality (PR)	0.094	-0.203	-0.155	-0.599
	(1.156)	(0.927)	(0.923)	(0.825)
Legislative Salience LR Dim	-0.073***	-0.047***	-0.047***	-0.048***
	(0.014)	(0.012)	(0.012)	(0.012)
Legislative Salience Territ.Dim	-0.326**	-0.241*	-0.235*	-0.266**
	(0.164)	(0.132)	(0.132)	(0.131)
Leg. Salience 2nd Dim X PR	0.588***	0.631***	0.611***	0.645***
	(0.217)	(0.194)	(0.194)	(0.190)
Controls				
GDP Growth	-0.259***	-0.121	-0.123	-0.126
	(0.074)	(0.084)	(0.085)	(0.084)
Inter-Regional Inequality	-0.013	-0.001	0.002	0.012
	(0.022)	(0.023)	(0.023)	(0.022)
Gini Regional Population	0.040***	0.034**	0.033**	0.027**
	(0.014)	(0.014)	(0.014)	(0.013)
Ethno-Cultural Diversity	4.701***	3.479**	3.405**	2.802*
	(1.670)	(1.713)	(1.733)	(1.703)
Constant	-0.681	-0.916	-0.976	-0.370
	(1.740)	(1.446)	(1.436)	(1.332)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**92**	**92**	**92**	**92**
R-squared	**0.998**	**0.998**	**0.998**	**0.998**
Number of Countries	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.6: Coalition Bargaining Test, Economic Self Rule, Investiture Vote

DV: Economic Self Rule	**(4.6.1)** ***Seats***	**(4.6.2)** ***Banzhaf***	**(4.6.3)** ***ShapleySh***	**(4.6.4)** ***MIW***
Random Effects Model				
Lagged Dependent Variable	1.002***	1.003***	1.003***	1.002**
	(0.011)	(0.011)	(0.011)	(0.011)
Coalition Bargaining Test				
Investiture Vote Dummy	0.404	0.028	-0.025	-0.204
	(0.520)	(0.431)	(0.434)	(0.449)
Legislative Salience Welfare Dim	0.082***	0.075***	0.075***	0.084**
	(0.029)	(0.026)	(0.025)	(0.026)
Legislative Salience Decentr.Dim	0.162*	0.159**	0.158**	0.160**
	(0.089)	(0.076)	(0.076)	(0.075)
Leg. Salience 2nd Dim X Investiture	0.152	0.319**	0.326**	0.330**
	(0.182)	(0.162)	(0.161)	(0.153)
Controls				
GDP Growth	-0.031	-0.036	-0.032	-0.017
	(0.075)	(0.076)	(0.076)	(0.074)
Constant	-1.434	-1.288	-1.280	-1.407
	(0.937)	(0.927)	(0.921)	(0.926)
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**
Observations	**147**	**147**	**147**	**147**
R-squared	**0.993**	**0.994**	**0.994**	**0.994**
Number of Countries	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.7: Coalition Bargaining Test, Public Social Spending, Fixed Effects Models I

DV: Public Social Spending	**(4.7.1)** ***Banzhaf***	**(4.7.2)** ***ShapleySh***	**(4.7.3)** ***MIW***
Fixed Effects Models			
Coalition Bargaining Test			
Proportionality (PR)	1.196	1.185	1.265
	(0.899)	(0.905)	(0.902)
Legislative Salience Welfare Dim (Bz)	0.073***		
	(0.023)		
Legislative Salience DecentralizationDim(Bz)	0.269*		
	(0.147)		
Legislative Salience 2nd Dim (Bz) X PR	-0.417*		
	(0.244)		
Legislative Salience Welfare Dim (Shsh)		0.071***	
		(0.023)	
Legislative Salience Decentralization Dim (Shsh)		0.253*	
		(0.147)	
Legislative Salience 2nd Dim (Shsh) X PR		-0.388	
		(0.243)	
Legislative Salience Welfare Dim (MIWs)			0.074***
			(0.024)
Legislative Salience Decentralization Dim (MIWs)			0.261*
			(0.149)
Legislative Salience 2nd Dim (MIWs) X PR			-0.411*
			(0.246)
Controls			
GDP Growth	-0.435***	-0.431***	-0.424***
	(0.072)	(0.072)	(0.070)
Unemployment	0.284***	0.283***	0.282***
	(0.051)	(0.051)	(0.051)
Skew	6.549**	6.586**	6.550**
	(3.032)	(3.034)	(3.071)
90-10 Inequality Ratio	1.113**	1.082**	1.082**
	(0.486)	(0.492)	(0.498)
Constant	-0.856	-0.802	-0.847
	(3.821)	(3.832)	(3.880)
Year Dummies	**Yes**	**Yes**	**Yes**
Country FE	**Yes**	**Yes**	**Yes**
Observations (#Legislautres)	**106**	**106**	**106**
R-squared	**0.988**	**0.988**	**0.988**
Numer of Countries	**18**	**18**	**18**

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Table 4.8: Coalition Bargaining Test, Public Social Spending, Fixed Effects Models II

DV: Public Social Spending	**(4.8.1)**	**(4.8.2)**	**(4.8.3)**
	Banzhaf	***ShapleySh***	***MIW***
Fixed Effects Models			
Coalition Bargaining Test			
Proportionality (PR)	1.330*	1.305*	1.300*
	(0.759)	(0.762)	(0.745)
Legislative Salience Left-Right Dim (Bz)	-0.031***		
	(0.011)		
Legislative Salience Territorial Dim (Bz)	0.243***		
	(0.086)		
Legislative Salience 2nd Dim (Bz) X PR	-0.431***		
	(0.136)		
Legislative Salience Left-Right Dim (Shsh)		-0.031***	
		(0.011)	
Legislative Salience Territorial Dim (Shsh)		0.236***	
		(0.086)	
Legislative Salience 2nd Dim (Shsh) X PR		-0.420***	
		(0.137)	
Legislative Salience Left-Right Dim (MIWs)			-0.032***
			(0.012)
Legislative Salience Territorial Dim (MIWs)			0.238***
			(0.085)
Legislative Salience 2nd Dim (MIWs) X PR			-0.435***
			(0.134)
Controls			
GDP Growth	-0.447***	-0.448***	-0.438***
	(0.074)	(0.075)	(0.072)
Unemployment	0.311***	0.310***	0.310***
	(0.052)	(0.052)	(0.052)
Skew	8.077***	8.095***	7.945***
	(2.756)	(2.771)	(2.800)
90-10 Inequality Ratio	1.039**	1.044**	0.983**
	(0.481)	(0.483)	(0.483)
Constant	-1.198	-1.215	-0.922
	(3.586)	(3.603)	(3.635)
Year Dummies	**Yes**	**Yes**	**Yes**
Country FE	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**106**	**106**	**106**
R-squared	**0.987**	**0.987**	**0.988**
Numer of Countries	**18**	**18**	**18**

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Table 4.9: Coalition Bargaining Test, Economic Self Rule, Fixed Effects

DV: Economic Self Rule	**(4.9.1)**	**(4.9.2)**	**(4.9.3)**
	Banzhaf	***ShapleySh***	***MIW***
Fixed Effects Models			
Lagged Dependent Variable	0.843**	0.853***	0.849***
	(0.163)	(0.163)	(0.162)
Coalition Bargaining Test			
Proportionality (PR)	-0.769	-0.824	-1.093
	(1.195)	(1.199)	(1.170)
Legislative Salience Welfare Dim (Bz)	0.062**		
	(0.028)		
Legislative Salience Decentralization Dim (Bz)	-0.255		
	(0.218)		
Legislative Salience 2nd Dim (Bz) X PR	0.651*		
	(0.350)		
Legislative Salience Welfare Dim (Shsh)		0.062**	
		(0.028)	
Legislative Salience Decentralization Dim (Shsh)		-0.267	
		(0.218)	
Legislative Salience 2nd Dim (Shsh) X PR		0.656*	
		(0.351)	
Legislative Salience Welfare Dim (MIWs)			0.075**
			(0.030)
Legislative Salience Decentralization Dim (MIWs)			-0.312
			(0.217)
Legislative Salience 2nd Dim (MIWs) X PR			0.753**
			(0.351)
Controls			
GDP Growth	-0.136*	-0.137*	-0.136*
	(0.076)	(0.076)	(0.076)
Constant	1.358	1.286	1.413
	(2.147)	(2.144)	(2.121)
Year Dummies	**Yes**	**Yes**	**Yes**
Country FE	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**155**	**155**	**155**
R-squared	**0.995**	**0.995**	**0.995**
Number of Countries	**18**	**18**	**18**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 4.10: Coalition Bargaining Test, Economic Self Rule, FixedEffects

DV: Economic Self Rule	**(4.10.1)** ***Banzhaf***	**(4.10.2)** ***ShapleySh***	**(4.10.3)** ***MIW***
Fixed Effects Models			
Lagged Dependent Variable	0.896***	0.899***	0.890***
	(0.169)	(0.170)	(0.169)
Coalition Bargaining Test			
Proportionality (PR)	-0.431	-0.424	-0.496
	(1.111)	(1.113)	(1.089)
Legislative Salience Left-Right Dim (Bz)	-0.009		
	(0.011)		
Legislative Salience Territorial Dim (Bz)	-0.275**		
	(0.140)		
Legislative Salience 2nd Dim (Bz) X PR	0.429**		
	(0.206)		
Legislative Salience Left-Right Dim (Shsh)		-0.008	
		(0.011)	
Legislative Salience Territorial Dim(Shsh)		-0.273*	
		(0.141)	
Legislative Salience 2nd Dim (Shsh) X PR		0.420**	
		(0.207)	
Legislative Salience Left-Right Dim (MIWs)			-0.009
			(0.011)
Legislative Salience Territorial Dim (MIWs)			-0.286**
			(0.137)
Legislative Salience 2nd Dim (MIWs) X PR			0.450**
			(0.199)
Controls			
GDP Growth	-0.177**	-0.178**	-0.183**
	(0.074)	(0.074)	(0.074)
Constant	1.375	1.334	1.537
	(2.183)	(2.187)	(2.172)
Year Dummies	**Yes**	**Yes**	**Yes**
Country FE	**Yes**	**Yes**	**Yes**
Observations (#Legislatures)	**155**	**155**	**155**
R-squared	**0.995**	**0.995**	**0.995**
Number of Countries	**18**	**18**	**18**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figure 4.7: Marginal Effect of the Leg. Salience of the Territorial 2nd Dimension

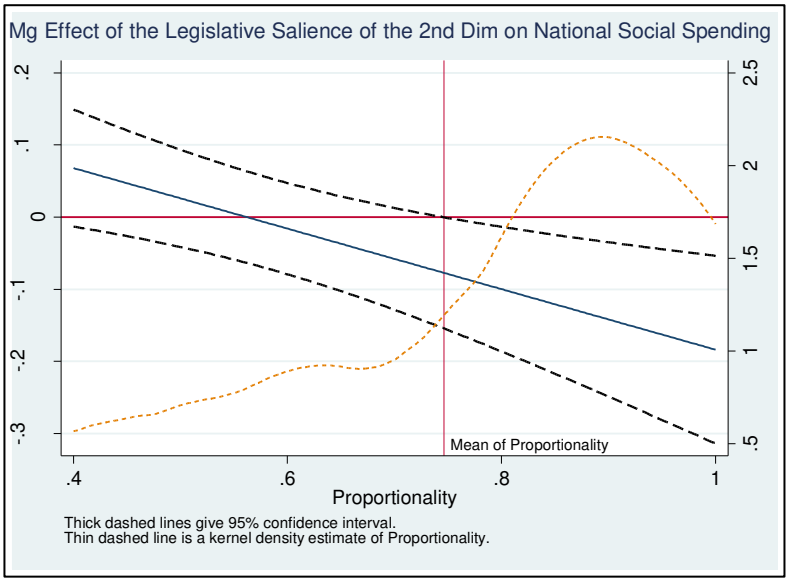


Figure 4.8: Marginal Effect of the Leg. Salience of the 2nd Dim

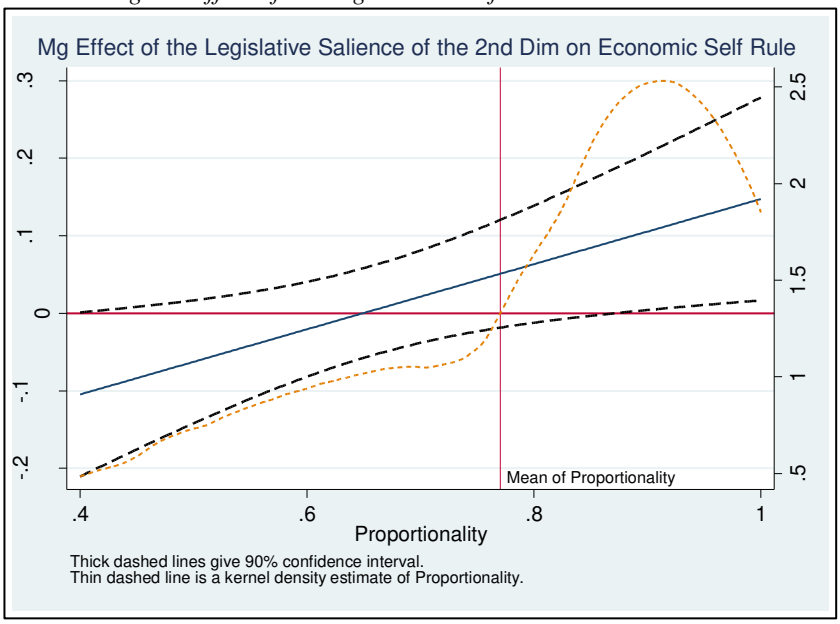


Figure 4.9: Marginal Effect of Proportionality

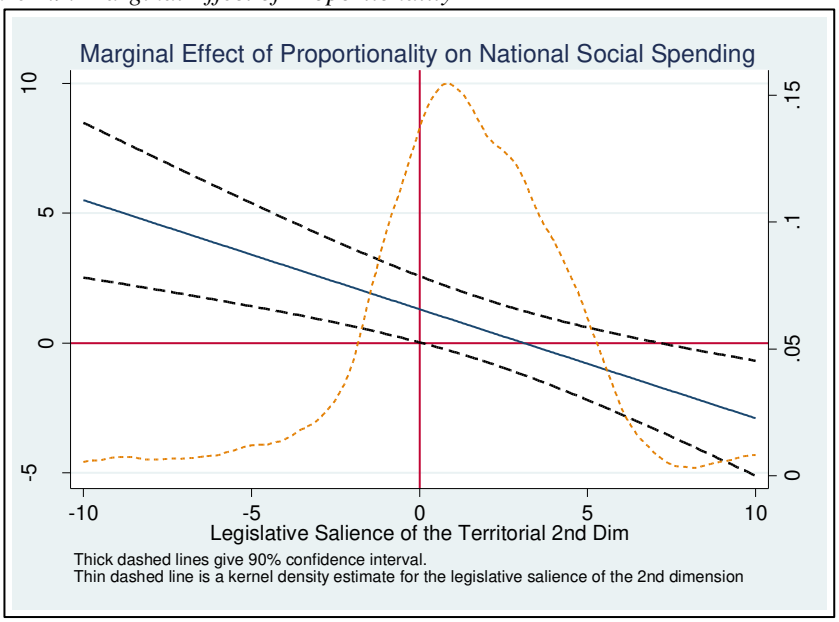


Table 4.11: The Left-Right Issue Scale Dimension

Left-Right Scale* **(from Laver and Budge, 1992)**	***Right-Wing Salience Scores***	***Left-Wing Salience Scores***
	Military: Positive (per104) Freedom and Human Rights (per201) Constitutionalism: Positive (per203) Political Authority (per305) Free enterprise (per401) Incentives (per402) Protectionism: Negative (per407) Economic Orthodoxy (per414) Welfare state limitation (per505) National way of life: Positive* (per601) Traditional morality: Positive *(per603) Law and order (per605) Social harmony (per606)	Anti-imperialism (per103) Military: negative (per105) Peace (per106) Internationalism: Positive (per107) Democracy (per202) Market regulation (per403) Economic Planning (per404) Protectionism: Positive (per406) Controlled Economy (per412) Nationalization (per413) Welfare state expansion (per504) Education expansion (per506) Labour groups: Positive (per701)

*This is the original definition of the *rile* issue dimension in the Comparative Manifesto (CMP) dataset. But note that when I construct my left-right issue scale I perform the following correction: *rile-per601-per603*.

Table 4.12: The Territorial Issue Scale Dimension

Territorial Scale **(from Alonso 2012)**	***Pro-Periphery Salience Scores***	***Pro-Centre Salience Scores***
	Pro-Decentralization (per301) National way of life: Negative (per602) Multiculturalism: Positive (per607)	Pro-Centralization (per302) National way of life: Positive (per601) Multiculturalism: Negative (per608)

CHAPTER 5. THE ELECTORAL STAGE: HERESTHETICAL MANOEUVRES

5.1 Empirical Implications at the Meso-Level

In this chapter I examine the empirical implications that relate to the electoral stage of the argument. I address the following questions: why some parties politicise some issues and not others? Under what conditions are parties more likely to activate the territorial cleavage? In order to answer these questions, I first investigate the institutional and economic conditions under which political parties are more likely to increase the salience of the 2nd dimension –namely, the emphasis political parties place on territorial issues in their electoral manifestoes. As expected, parties attach greater salience to the territorial dimension in PR systems with most cultural diversity. Next, I examine the existence

of "*Rikerian*" heresthetical manoeuvres by analysing if political parties prime the salience of the 2nd dimension after an electoral loss. To test the heresthetics mechanism I make use of a party-election panel dataset that covers elections through the 1952-2010 time period across 18 OECD parliamentary democracies.

Recall that according to the theoretical model and the empirical implications previously discussed, both right and regionalist parties should be particularly prone to increasing the dimensionality of the political space when they are "losers" on the first dimension. The model predicts that the right-wing party needs to pay a lower price to mobilise voters along the lines of the territorial dimension; but the regionalist party also strategically primes the salience of the 2nd dimension to attract voters in identified districts. In the model the electoral base of the left party is split according to the geographical divide between unified and poor districts. Therefore, the only incentive left for the left party is to increase the salience of the territorial dimension to preserve its core voters either in unified or identified districts. From that point of view, the 2nd dimension imposes an electoral dilemma for the left party.

While I do not explicitly model the effect of proportionality at the electoral stage of the model, I need to take its empirical effect into account. Hence, before undertaking the test for heresthetics, I also explore the way in which proportionality and territorial diversity affects the emphases that parties attach to the 2nd dimension. The expectation being, that PR systems with high levels of territorial diversity should have the greatest dimensionality of the political space. On the other hand, the models also incorporate economic inequality as a control. A similar logic applies; inequality may have implications for my empirical analysis because it might explain the electoral salience of the 2nd dimension directly or it might condition the effect of the other independent variables.

Thus, I summarise the main hypotheses to be tested in this chapter as follows:

Hypothesis 1 (*'Institutional and economic conditions for heresthetics'*): Proportionality of the electoral system and ethno-cultural diversity are likely to increase the electoral salience of the 2nd dimension in parliamentary democracies.

Hypothesis 2 (*'Heresthetical manoeuvres on the 2nd dimension'*): Political parties engaging in heresthetical manoeuvres increase the electoral salience of the 2nd dimension after an electoral loss if they are "losers" on the first dimension.

Hypothesis 3 (*'Differences in electoral incentives across parties'*): Both right-wing and regionalist parties are particularly likely to undertake heresthetical manoeuvres based on the 2nd dimension when they are "losers" on the first dimension.

Hypothesis 4 (*'Differences in electoral incentives and regional diversity'*): The electoral incentives to engage in heresthetical manoeuvres will be higher when the levels of territorial diversity are high.

5.2 Data and Variables

5.2.1 Dependent Variable: Electoral Salience of the 2nd Dim

I distinguish the electoral strategies of political parties on two dimensions: the first concerns the welfare/left-right dimension and the second refers to the decentralisation/territorial dimension. Thus, to test my main hypotheses I need measures on both the (i) electoral salience of the 2nd dimension and (ii) party positions for each party on the two dimensions. In order to achieve this I again

employ the CMP dataset (Budge et al. 2001, Klingemann et al. 2006, Volkens et al. 2012). Regarding the elaboration of salience measures I also follow the standard procedures developed by the Comparative Manifesto Research Group (CMP) (Budge et al 2001)

The data provided by the CMP endeavour provides rich information with respect to the actual content of political parties' electoral platforms. As Alonso et al 2012 describes it: *"(...) the Manifesto dataset registers the number of quasi-sentences that a party manifesto dedicates to each category of the classification scheme and calculates this number as a percentage over the total number of quasi-sentences in the manifesto. The saliency score of each category is, therefore, the rate of mentions that this category receives in a given party manifesto. Thus, saliency that any one dimension of competition has in a party manifesto is equivalent to the sum of the salience scores of the categories that belong to the dimension*".

Therefore, I construct in two different ways the electoral salience measures of the 2nd dimension for a given party *i* in a given election at time *t*. First, the narrow *decentralisation salience* measure simply adds up the percentages of sentences devoted to decentralisation claims (*per301)* and the percentages of sentences devoted to centralisation claims (*per203*) in the electoral manifestos of a given party (Laver and Budge, 1992). Note that this variable provides information on the overall emphasis devoted to decentralisation issues by a party in a given election. More specifically, it captures the percentage of quasi-sentences that refer to decentralisation issues, with either positive or negative claims, in a given electoral programme. This is the main difference in this chapter in relation to the previous on. Therefore, I employ the sum of decentralisation scores in the electoral platform as an empirical proxy for the electoral salience of the 2nd dimension:

$$\textit{Electoral Salience } 2^{nd} \textit{ Dimension (Decentralisation Issue-Scale)}_{i,t} = \textit{Pro-Decentralisation Score (per301)}_{i,t} + \textit{Pro-Centralisation Score (per302)}_{i,t}$$

Second, the broader *territorial salience* measure is constructed the same way as in Alonso (2012) and incorporates not only decentralisation issues but also issues related to minority cultures and opposition/defence of the national way of life. This second measure of salience of the 2nd dimension adds up the percentage of sentences that parties devote to decentralisation as well issues related to the national way of life (with either positive or negative quasi-sentences) and multiculturalism (also with positive/negative quasi-sentences). In other words, the second salience measure adds up all the pro-periphery salience scores plus all the pro-centre salience scores. This measure provides broader information on the overall emphasis devoted to territorial issues by a given party in a given election. Thus, the percentage of quasi-sentences that refer to the territorial cleavage, with either positive or negative claims, in a given electoral programme are:

$$\textit{Electoral Salience } 2^{nd} \textit{ Dimension (Territorial Issue-Scale)}_{i,t} = \textit{All Pro-Periphery Scores} + \textit{All Pro-Centre Salience Scores}$$

To illustrate the electoral salience measure of the 2nd dimension, Figure 5.1 plots the histograms and the estimated kernel density functions using the broad territorial issue-scale measure across different party types. Unsurprisingly, regionalist parties exhibit the distribution with the greatest priming of the salience of the 2nd dimension. On average, the electoral salience of the territorial dimension for Regionalist parties is 16.15 –that is, they devote 16.15% of their electoral programmes to territorial issues. However, it is also interesting to look at and compare the distributions of the electoral salience of the 2nd dimension for left-wing and right-wing parties. First, note that both parties have a positively skewed distribution. Interestingly, though, right-wing parties exhibit a somewhat less skewed distribution and also with a higher average relative to that of left-wing parties. In fact, the shape of the distribution for the salience of the 2nd dimension among right-wing parties is halfway in between that for left-wing parties and that for regionalist parties.

Although it is not strictly relevant for this chapter, Figure 5.2 represents the positions of parties in a two-dimensional political space (Alonso, 2012), in which the left-right (*rile*) position variable is the horizontal axis and the territorial (*territ*) position variable is the vertical axis. Each dot represents a party-election observation. Some interesting patterns emerge when looking at parties' positions. As expected, left-wing parties are predominantly located in the pro-leftist area (negative rile values) whereas most right-wing parties are located in the pro-right area (positive rile values). On the other hand, an important fraction of left-wing parties have moderately pro-periphery preferences, although one can also find left parties with pro-centre preferences. On the other hand, right-wing parties are more evenly distributed between pro-periphery and pro-centre positions. Finally, regionalist parties are almost all located in the pro-periphery area. It is also very interesting to observe how compact and centred around 0 the distribution of left-right preferences for regionalist parties is.

5.2.2 Independent Variables for the Heresthetics Test:

Absolute Distance to the Average Voter on the 1st Dimension

The key variable for the `heresthetics test´ that will follow is the variable that measures the *Absolute Distance to the Average Voter on the 1st Dimension*. This variable measures the extent to which a given party is distant from the average voter on the welfare/left-right dimension. The purpose of this variable is to capture how distant a given party is in a given election at time t from the average position on the first dimension before the elections. Thus, it is constructed by simply subtracting the average position of parties on the first dimension, weighted by their electoral shares in the previous elections, from the position of a given party on the first dimension in the current elections. In essence, this variable measures the distance between the current policy position of a given party on the first dimension and the average position before the elections on that dimension. As a

result, it has both cross-time and cross-parties variation. Since I am fundamentally interested in exploring the effects of an electoral loss on parties' strategies, in the empirical analyses that follow I will interact this distance variable with the electoral loss variable.

In the models I compute this variable in two different ways. First, I use the welfare positions of parties in the CMP dataset, which varies for each party in each election, to compute the average position of the average voter on the first dimension. That is, I weight parties' positions on the welfare dimension according to the electoral results in previous elections. Next, I employ the Benoit and Laver (2006) expert survey positions on the left-right dimension. The latter do not have temporal variation but note that still the *Absolute Distance to the Average Voter on the 1st Dimension* variable has cross-time and cross-parties variation, since parties' electoral shares in previous elections varies in each election.

Average Electoral Preferences on the Two Dimensions

Arguably, political parties might not be behaving strategically but simply responding to changing preferences of the electorate across time. For example, regionalist parties might be responding to a change in public opinion in a given region that demands greater decentralisation. Or vice versa, left and right-wing parties may be responding to a demand for further centralisation. In order to address these concerns, I include the average preferences of the electorate on both dimensions as control variables. In order to compute the average preferences I calculate for each election-year the average voter on each dimension by simply weighting the position of each party in a given dimension by their electoral results. Note that by doing so I obtain average indexes with cross-time and cross-country variation.

On the one hand, I construct the average preferences of the electorate on the first dimension by employing the expert survey

data from Benoit and Laver (2006). Interestingly, "left-right" party positions in Benoit and Laver's dataset do not have temporal variation and are therefore useful in disentangling responsiveness from strategic issue-priming. That is, parties' positions on the first dimension are fixed and as such independent of changes in public opinion. Unfortunately, however, I am forced to only use the party positions on the decentralisation dimension from the CMP dataset. I am not aware of any alternative dataset or surveys to calculate the preferences of the electorate on the 2nd dimension for the broad time-period under study.

5.3 Methodology and Empirical Strategy

In this chapter I employ a panel dataset of party election observations across 18 OECD parliamentary and semi-presidential democracies. The complete panel data covers the period 1952-2010 and contains a total of 1,317 electoral-based observations with information for 148 parties. The average number of electoral-based observations is 8.9 per party. Note also that the set of countries is exactly the same as that in the previous macro-level chapter.

First, I explore differences across parties in the emphasis they attach to the salience of the 2nd dimension. I employ two alternative specifications with different identifying assumptions, namely: (i) random effects models and (ii) hierarchical models. I follow Angrist and Pischke's advice (2009) by checking if the results are equivalent when using alternative specifications. The random effects and hierarchical models are not nested but they should produce similar estimates. Note that the random effects models adjust for clustered standard errors at the party-level. On the other hand, the hierarchical models include random intercepts at the country level to account for the nested structure of the data – since the models also control for country-level determinants of the salience of the territorial cleavage. For all the hierarchical models

I report the log likelihood ratio test, which compares the fit of the multilevel model against a null non-hierarchical one.

Next, in order to specify a test for heresthetical manouvers on the 2nd dimension, I also employ two alernative specifications: (i) dynamic specifications that include party fixed-effects models; and (ii) hierarchical models with both party and country random intercepts. The party fixed-effects models exploit variation in electoral results and electoral strategies within parties. By employing fixed effects models I am able to provide estimates of the effects of electoral results on electoral strategies throughout elections. This provides a rigorous test of the impact of electoral fortunes by getting rid of unobserved heterogeneity across parties. On the other hand, the hierarchical models with party and country random intercepts again account for the nested structure of the panel data. Both alternative specifications control for the most obvious covariate with cross-time variation: the preferences of the electorate. Finally, to further control for remaining unobserved heterogeneity some of the models also include year dummies. The inclusion of year dummies, however, does not affect the results.

5.4 Results

Now I proceed to discuss the main findings in this chapter. First I will explore both the structural determinants as well as differences across parties in the electoral salience of the 2nd dimension. Next, I will continue with a dynamic test of heresthetical manoeuvres based on the 2nd dimension by exploring the electoral conditions under which parties increase the salience of the territorial cleavage.

5.4.1 The Electoral Salience of the 2nd Dimension Across Parties

Table 5.1 and Table 5.2 provide the first piece of empirical evidence with respect to the extent to which there are significant

differences in the electoral emphasis on the 2nd dimension across parties, and the conditions under which political parties prime the territorial dimension. As explained above, the dependent variable is the political priming of the salience of the 2nd dimension that each political party undertakes in every election. In Table 5.1 I employ the salience measure that refers to the narrow decentralisation issue-scale dimension previously described. That is, the one that only takes into account parties' claims with respect to decentralisation/centralisation. On the other hand, in Table 5.2 I employ the broader territorial issue-scale dimension, which also incorporates parties' claims with respect to the national way of life and minorities.

In all models of Tables 5.1 and 5.2 I include three types of explanatory factors: (i) party-type dummies, (ii) party-level legislature controls, and (iii) country-level determinants. Regarding party types, I include a set of dummies for each party type following the distinction already made by the Comparative Manifesto Project (CMP). The reference category (omitted group) is left-wing parties; namely the group of parties coded as Social Democratic parties or Former Communist in the CMP dataset. Also, it is important to mention here that right-wing parties are the group of parties coded as Conservative and Liberal parties in the CMP dataset. While the party-level legislature variables account for the characteristics of that party in legislative periods preceding the elections (*Party Size, Shapley-Shubik Coalition Value, Cabinet Party, Prime Minister Party*). Finally, the country-level variables take into account the institutional and economic characteristics for each party-election observation (*Proportionality, Cultural Diversity* and *Inequality*). Note, that I only include the *Inequality* variable in the last two columns of Tables 5.1 and 5.2.

According to my theoretical expectations, not only regionalist parties but also right-wing parties should be more prone to increasing the salience of the territorial dimension, especially when they are losers on the first dimension. As expected, the dummy variable for regionalist parties is positive and significant in all models (5.1.1)-(5.1.4). The magnitude of the coefficient

implies that regionalist parties attach between 4 and 9 percentage points more to decentralisation issues in their electoral manifestoes than left-wing parties. However and perhaps more surprisingly, the coefficient for right-wing parties is also positive and statistically significant in all models of Table 5.1.

The differences across parties in priming levels of the 2nd dimension are even more noticeable in Table 5.2 when using the broader territorial issue-scale. In models (5.2.1)-(5.2.4) Regionalist parties devote around 10 percentage points more than left-wing parties to territorial issues. Similarly, Nationalist parties attach between 10 and 12 percentage points more of their electoral manifestoes to issues related to territorial cleavage. It is worth highlighting, however, that the coefficient for Nationalist parties was not statistically significant in Table 5.1. This implies that these parties focus their electoral manifestoes on issues broadly related to the territorial cleavage (e.g. claims about the national way of life and multiculturalism) and not centralisation/decentralisation demands.

But most importantly, the difference between right-wing and left-wing parties on their priming of the territorial cleavage is especially notable in Table 5.2. According to the estimated coefficients in the random effects models (5.2.1) and (5-2.3), right-wing parties devote 1.8 percentage points more of their electoral manifestoes to issues related to the territorial cleavage than left-wing parties. These are not negligible magnitudes given that on average left-wing parties devote 3.1% of their electoral manifestoes to territorial issues. It is also worth mentioning that Christian Democratic parties constitute an exception. Except for the estimated coefficient in model (5.2.2), they do not appear to prime territorial issues significantly more than left-wing parties. One likely reason is that they prefer instead to prime the salience of the religiosity cleavage.

As regard to the institutional and economic determinants of parties' emphasis on the 2nd dimension, the results in Tables 5.1 and 5.2 are very robust and coherent with theoretical expectations. Specifically, in all models the interaction term between

proportionality and cultural diversity is positive and significant. This result implies that political parties attach more salience to the 2nd dimension in PR systems with high ethno-cultural diversity. Figures 5.3 and 5.4 plot the marginal effects of proportionality conditional on cultural diversity on the decentralisation issue-scale dimension and the territorial issue-scale dimension. The Kernel density estimates as well as the mean of cultural diversity are also reported. It can clearly be seen that PR has a positive marginal effect on the salience of both issue-scales when the levels of cultural diversity are high. The magnitude of the effect is noticeable, roughly equivalent to 5 percentage points, for cultural diversity values between 0.4 and 0.6.

The latter is a significant result that highlights the role of PR systems in opening up the dimensionality of the political space. On the other hand, the *Inequality* variable exhibits a positive and significant effect on the salience of the 2nd dimension in models (5.2.3) and (5.2.4) of Table 5.2. This result is coherent with the recent work by Potter and Tavits (2013) that suggest that right-wing parties put greater emphasis on values when great inequality exists. Interestingly, none of the party-level legislature variables reported in Tables 5.1 and 5.2 are statistically significant. These results strongly suggest that differences across parties in the emphasis devoted to territorial issues are not fundamentally driven by legislature-based dynamics. Instead, variation across parties in the salience of the 2nd dimension is predominantly explained by party types, proportionality of the electoral system, cultural diversity and levels of inequality. However, it is important to distinguish the factors that explain variation in salience across parties from variation within parties. As I will show in the next section, electoral dynamics play a fundamental role when instead one focuses on variation within.

Altogether the results in Tables 5.1 and 5.2 provide evidence of a significant first building block: there are significant differences in the extent to which political parties prime the salience of the 2nd dimension. I acknowledge, however, that these results are still not very informative with respect to the

motivations behind that priming. It could simply be that parties raise the salience of the territorial dimension because it is a prominent issue among the electorate. However, I have shown that regionalist parties and right-wing parties systematically attach more weight than social democrats to issues related to the second dimension in their electoral manifestoes. Therefore, the relevant question becomes: is this empirical regularity the consequence of strategic electoral behaviour by those parties? Or, alternatively, is it simply the case that those parties are more responsive to changes in public opinion with respect to the 2nd dimension?

5.4.2 A Test for Heresthetical Manoeuvres:

From this point on I focus on exploring how electoral incentives for a given party affect parties' emphasis on the 2nd dimension. Specifically, the objective is to test whether parties are more likely to prime the 2nd dimension after an electoral loss when they are losers –in the sense of being distant from the average voter- on the first dimension. This is the `heresthetics test´ I put forward. Thus, the main difference with respect to the previous models is that I focus on within-party variation. As explained before, the identification strategy is twofold. On the one hand, I run party-fixed effects models that exploit variation within parties. On the other, I run hierarchical models with country and party random intercepts. The results should be broadly the same when using the two alternative models.

Table 5.3 report the dynamic test for heresthetics when all parties are included in the analyses. Models (5.3.1) and (5.3.2) use the decentralisation issue-scale dimension as dependent variable and models (5.3.3) and (5.3.4) the broader territorial issue-scale dimension. The components of the heresthetics test are the main effects for *Electoral Loss*$_{(t-1)}$, *Abs Dist. to Av.Voter 1st Dimension* $_{(t,\ t-1)}$ and, most importantly, the interaction between the two. The results in Table 5.3 clearly show that the effect of an electoral loss on parties' emphasis on the 2nd dimension is conditional on

parties' absolute distance to the average voter on the first welfare dimension. In other words, parties put more emphasis to the 2nd dimension after an electoral loss when they are "losers" on the first dimension –namely, distant from the average position of the average voter on that dimension. This is a remarkable preliminary result. Also, note that this result holds for both the narrow decentralisation dimension and for the broader territorial dimension.

Figure 5.5 shows the marginal effect of an electoral loss on the salience of the 2nd dimension conditional on parties' absolute distance to the average voter on the first dimension. The plot is drawn using the estimated coefficients in model (5.3.3), the fixed-effects model that employs the territorial issue-scale as a dependent variable. To facilitate the interpretation, I also report the Kernel density estimate of the variable *Abs Dist. to Av.Voter 1st Dimension* $_{(t,\ t-1)}$ as well as its mean value. Most interestingly, the marginal effect of an electoral loss is positive and significant only when the absolute distance variable is above the mean. Thus, political parties increase the salience of the 2nd dimension after an electoral loss when their position on the first dimension with respect to the mean voter is above the mean value.

As regard to the control variables, the average electoral preferences on the 2nd dimension exhibit a robust positive effect on parties' salience of the territorial cleavage. That is, parties devote greater emphasis to territorial issues when the average preferences of the electorate towards decentralisation increase. This result means that political parties are also responsive to changes in preferences of the electorate. However, the significant result is that the inclusion of the electoral preferences does not preclude the independent effect of the heresthetics variables. In other words, *ceteris paribus* the preferences of the electorate, parties are more likely to prime the salience of the 2nd dimension after an electoral loss when they are distant from the average voter on the first dimension.

Once could argue that, in fact, the controls for the average preferences of the electorate on both dimensions are themselves

endogenous to the electoral results of political parties. Note, however, that this is only true to a certain extent, since the mean preferences of the electorate in a given dimension take into account the results not only of a given party but in fact the results of all parties in a given election. Moreover, the mean preferences of the electorate on the first dimension are calculated using Benoit and Laver (2006) expert survey data. In fact, the correlation between the electoral priming of the 2nd dimension and the imputed mean preferences of the electorate is low and not significant for most party types.

5.4.3 Heresthetical Manoeuvres Across Parties

Until this point I have shown how, across the full universe of parties, the relationship between the electoral results and the salience of the 2nd dimension is dependent on the position of parties on the first dimension. However, according to my theoretical expectations, this effect should not be the same for all party types. In other words, not all parties should be equally interested in activating the salience of the 2nd dimension after an electoral loss. Instead, left-wing parties should me more interested in centring the electoral competition on redistributive and economic issues (Przeworski and Sprague, 1986). Therefore, Table 5.4 breaks down the effects of electoral fortunes on electoral strategies across different party types: parties L (left-wing), R (right-wing) and E (regionalist parties).

Models (5.4.1) and (5.4.2) in Table 5.4 specify the same dynamic test for heresthetics as in Table 5.3 but only for left-wing parties. In both the party fixed-effects specification and the hierarchical model the interaction between the electoral loss variable and the absolute distance variable is not statistically significant. But interestingly, the *Abs Dist. to Av.Voter 1st Dimension* $_{(t,\ t-1)}$ variable is negative and statistically significant. This means that the priming of the 2nd dimension by L parties does not depend on the electoral loss on the previous elections. On the

contrary, it is fundamentally driven by the party position on the first dimension: the greater the distance to the mean voter on the first dimension, the lower the politicisation of the 2nd dimension.

But most strikingly, the results are dramatically different for both R and E parties in Table 5.4. Models (5.4.3) and (5.4.4) run the dynamic test for heresthetics among right-wing parties. This time the estimated coefficient for interaction term is now positive and statistically significant. Interestingly, the estimated coefficient is almost equal in the fixed effects model and the hierarchical one. Similarly, in models (5.4.5) and (5.4.6) I run the dynamic test for heresthetics among regionalist parties. Again, the estimated coefficient for the interaction term is positive and statistically significant. Note that in order to maximise the number of available observations the models for regionalist parties do not include country-level controls. However, to account for unobserved heterogeneity I include year dummies.

All the country-level variables have the expected effects in the models in Table 5.4. Note that the interaction term between proportionality and cultural diversity is positive and significant both for left-wing and right-wing parties in the hierarchical models. That is, both party types are more likely to increase the salience of the 2nd dimension when proportionality increases and when levels of ethno-cultural diversity are high. In the party fixed-effects models, though, I cannot include the cultural diversity variable since it is a time-unvarying factor. However, I maintain the proportionality control, which exhibits a positive effect in model (5.4.1). It is also worth emphasising that the inequality variable has a positive effect on the salience of the 2nd dimension for both left and right-wing parties in models (5.4.2) and (5.4.4). This is an interesting result that points towards an independent effect of inequality on the politicisation of 2nd dimension politics.

Arguably, the results in Table 5.4 might be biased due to remaining unobserved heterogeneity with temporal variation. In order to control for that, the models in Table 5.7 replicate the very same models, again disaggregating among party times, but this time including year dummies. These are the most demanding

models since they account for both time-unvarying and time-varying unobserved heterogeneity. But most significantly, the key results with respect to the dynamic test for hesthetical manoeuvres remain fundamentally unchanged. Both right-wing and regionalist parties are likely to increase the salience of the 2nd dimension after an electoral loss when they are "losers" on the first dimension, but this is not the case for left-wing parties.

5.4.4 An Illustration of the Main Findings

To summarise the main findings, Figures 5.6, 5.7 and 5.8 plot the marginal effect of the electoral loss variable on the salience of the 2nd dimension conditional on the absolute distance variable on the first dimension across party types. In Figure 5.6, which is drawn by using the estimated coefficients in model (5.4.1), it can be clearly seen that there is no evidence of heresthetical manoeuvres among left-wing parties. Note that the marginal effect for the electoral loss variable is basically flat and not significant for any value along the horizontal axis. In other words, the marginal effect of an electoral loss on the salience of the 2nd dimension is not contingent on the left-wing parties' position on the first dimension. Therefore, it seems that the emphasis devoted by left-wing parties to territorial issues is not related to heresthetical manoeuvres.

However, the results are dramatically different for right-wing and regionalist parties. Among the former, Figure 5.7 shows an increasing marginal effect of the electoral loss variable conditional on the party position on the first dimension. The plot is drawn using the estimated coefficients in model (5.4.3). The figure also reports the kernel density estimate of the absolute distance to the average voter on the first dimension as well as its mean value. Interestingly, the marginal effect of an electoral loss becomes statistically significant around the mean value of the horizontal axis. This means that right-wing parties are likely to increase the salience of the 2nd dimension after an electoral loss when the

average distance to the mean voter on the welfare dimension is greater or equal to its mean value.

Put differently, right-wing parties are likely to politicise the territorial cleavage after an electoral loss if they are losers on the first dimension. The magnitude of the marginal effect for right-wing parties is sizeable. For the mean value of the absolute distance variable, one standard deviation increase in the electoral loss variable is associated with a 0.74 percentage points increase in the emphasis devoted to the 2nd dimension. A significant effect if one takes into account that the average salience of the territorial cleavage by right-wing parties is 5% of their electoral manifestoes.

Most importantly, the plot for the marginal effect of an electoral loss on the salience of the 2nd dimension looks very similar for regionalist parties –namely, with an increasing marginal effect. Again, regionalist parties are likely to politicise the 2nd dimension after an electoral loss when the distance to the average voter on the first dimension is greater than its mean value. The plot is drawn using the estimated coefficients in the fixed-effects model (5.4.5). In this case, for the mean value of the absolute distance variable, one standard deviation increase in the electoral loss variable for regionalist parties is associated with a 3.83 percentage points increase in the emphasis devoted to the 2nd dimension.

Therefore, the politicisation of the 2nd dimension due to heresthetical manoeuvres is surprisingly similar for right-wing parties and regionalist ones. Both increase the salience of the 2nd dimension after an electoral loss when they are distant from the average voter on the first dimension. On the other hand, left-wing parties are not likely to increase the salience of the 2nd dimension as a result of heresthetical manoeuvres. This preliminary set of results constitutes strong evidence supporting the theoretical arguments discussed in previous chapters. There are important differences across parties in the extent to which they manipulate strategically the dimensionality of the political space.

5.5 Further Results

5.5.1 Fixing Parties' Positions on the 1st Dimension

One might argue that the choice of parties' position on the first dimension is itself endogenous to the previous electoral results. If that is the case then the previous results could be biased due to the multicollinearity between the *Electoral Loss* $_{(t-1)}$ variable and *Abs Dist. to Av.Voter 1st Dimension* $_{(t, t-1)}$. In other words, the previous electoral fortunes might affect parties' absolute distance to the average voter on the first dimension in current elections. To account for that possibility, in this subsection I employ the time unvarying measure of party positions on the left-right dimension from Benoit and Laver (2006). Note, however, that the *Abs Dist. to Av.Voter 1st Dimension* $_{(\cdot,, t-1)}$ variable still has time varying variation since it captures the absolute distance between parties' position on the left-right dimension (which is time-unvarying) and the average voter in the left-right position in the legislature preceding the current elections (which by construction is time-varying).

Table 5.5 replicate the previous dynamic tests for heresthetics, but this time keeping constant the position of parties on the first dimension. Also, note that all the specificatoins in Table 5.5 incorporate year dummies to control for remaining unobserved heterogeneity. Models (5.5.1) and (5.5.2) use the broad full sample, without including country-level factors. The estimated coefficient for the interaction term is still positive and significant – although it falls some way short of statistical significance. It is worth highlighting that the Log Likelihood ratio test for the hierarchical model, which compares the fit of the model against a non-hierarchical one, is very high, 526.82. Thus, when no country-level factors are incorporated the evidence in favour of heresthetical manoeuvres when keeping constant the position of parties on the left right dimension is not strong.

However, in the party fixed effects model (5.5.3) and the hierarchical model (5.5.4) that incorporate country-level determinants the results improve dramatically. Specifically, the regularity of the main findings hold: keeping constant the position of parties on the first dimension , parties are likely to increase the salience of the 2nd dimension after an electoral loss when they are distant from the average voter on the left-right dimension. In fact, the results are fundamentally the same as those I described with respect to Table 5.3. Therefore, I can safely conclude that the collienarity between electoral fortunes and the position of parties on the first dimension was not driving the previous results. Note that models (5.5.3) and (5.5.4) incorporate the average electoral preferences of the electorate on each dimension, the country-level factors and the year dummies.

It is worth making two further remarks with respect to models (5.5.3) and (5.5.4). First, proportionality opens up the dimensionality of the political space by increasing the salience of the 2nd dimension when levels of cultural diversity are high. Although it is true that in the party fixed effects model (5.5.3), when cultural diversity is not included, proportionality also exhibits an independent positive effect on salience. Second, note also the positive and robust effect of inequality on the salience of territorial cleavages. As I mentioned above, this result is in line with recent literature that argues that parties may have electoral incentives to politicise group-based politics when inequality increases (Potter and Tavits 2013, Huber et al 2012). On the other hand, note how the Log Likelihood ratio test drops dramatically in model (5.5.4) from 526.82 to 111.06. This means that the fixed effects part of the hierarchical model is better specified.

The models (5.5.5) and (5.5.6) only include right-wing parties –that is, Conservative and Liberal parties. As expected and coherently with previous results, the dynamic test for heresthetical manoeuvres is passed very strongly by right-wing parties and it holds when keeping constant the position of parties on the first dimension. Interestingly, the Log likelihood ratio test for the hierarchical model (5.5.6) is very low, 5.44, and it is not

statistically significant. This result illustrates that the fixed part of the multilevel model accounts for most of the explained variation. Also, note that the R-squared for the explained within party variation is 0.45 in model (5.5.5) with party and year fixed effects. Overall, then, the results seem to be very robust.

To illustrate the results for right-wing parties, Figure 5.9 plots the marginal effect of an electoral loss on the salience of the 2nd dimension conditional on the absolute distance to the average voter on the left-right dimension. The figure strongly supports the *heresthetics hypothesis*: when right-wing parties' distance to the average voter on the left-right dimension is greater or equal than its mean value, an electoral loss in previous elections is associated with an increase in the salience of the 2nd dimension. On the other hand, if right-wing parties' positions on the left-right dimension are much closer to the average voter on that dimension, then an electoral loss is associated with a decline in the salience of the 2nd dimension.

Therefore, only when right-wing parties are "Rikerian losers" on the left-right dimension an electoral loss in previous elections is translated into higher levels of priming of the territorial cleavage in current elections. This is a significant finding that highlights the tendency by right-wing parties to emphasise the 2nd dimension as a function of their electoral incentives. Also, note that this finding holds *ceteris paribus* the average electoral preferences of the electorate, the electoral system and the inequality levels.

5.5.2 The Playing Field for Heresthetics: Territorial Diversity

According to the theoretical chapter, the incentives to prime the 2nd dimension are a function of the geographical distribution of voters and the presence of regionally identified voters in some districts. Therefore, the room for heresthetical manoeuvres by parties should be a function of the latent levels of regional-identity diversity. In other words, the electoral incentives to strategically

manipulate the salience of the territorial cleavage should dramatically increase when regional identity diversity is high. Therefore, in this last section I test to what extent parties heresthetical manoeuvres are dependent on the levels of diversity. Put differently, I want to test if latent diversity is a pre-requisite on the playing field in which parties play the heresthetics game.

In order to undertake this test I split the original sample for right-wing parties between those that compete in highly diverse countries and those that do so in low diversity countries. Hence, I simply divide the sample between countries above the median level of cultural diversity (Fearon, 2003), and countries below the median. In models (5.6.1)-(5.6.4) of Table 5.6 I again run the dynamic test for heresthetics in low diversity countries. The difference is that models (5.6.1) and (5.6.2) do not control for country-level determinants (proportionality of the electoral system and inequality) in order to maximise the available observations. But most importantly, none of the variables for the heresthetics test is now statistically significant across models (5.6.1)-(5.6.4). Therefore, it seems that in low diversity countries right-wing parties do not play the heresthetics card by activating the salience of the 2nd dimension.

However, the results look dramatically different in high diversity countries. In models (5.6.5)-(5.6.8) all the variables for the heresthetics test have the expected sign. In models (5.6.5) and (5.6.6), when none of the country-level controls are incorporated, the estimated coefficients for the interaction term are all statistically significant. In models (5.6.7) and (5.6.8), when adding proportionality and inequality, the results hold. In fact, the effects are even bigger in magnitude. It is also illustrative to check the differences in the Log Likelihood (LL) ratio test in the hierarchical models for low diversity democracies and the hierarchical models for high diversity. Whereas the LL test declines from 17.57 to 15.59 in models (5.6.2) and (5.6.4), it declines from 35.69 to 2.28 in models (5.6.6) and (5.6.8). This implies that the fixed-effects part, which includes the heresthetics variables, has much more explanatory power in high diversity democracies.

Another way to illustrate how territorial diversity affects the electoral incentives to prime the 2nd dimension is to separately plot the marginal effect of an electoral loss in low and high diversity democracies. Using the estimated coefficients in models (5.6.3) and (5.6.7), Figures 5.10 and 5.11 reflect this exercise. In Figure 5.10, for low territorial diversity democracies, the marginal effect of an electoral loss on the electoral priming of the 2nd dimension is not conditional on the parties' absolute distance to the average voter on the left-right dimension. In fact, the electoral loss variable does not have any effect on the salience of the 2nd dimension. But in Figure 5.11, the marginal effect of an electoral loss is positive and significant –and most interestingly, increasing on the parties' absolute distance to the mean voter on the left-right dimension.

5.6 Concluding Remarks

In this chapter I have explored empirically one of the core elements of the dissertation: political parties' electoral incentives to engage in heresthetical manoeuvres based on the territorial second dimension. In other words, I have mainly focused on investigating the conditions under which parties have electoral incentives to increase the dimensionality of the political space. More specifically, I have provided evidence by exploiting variation in the emphases that parties attach to the territorial identity cleavage in each election in a comparison of 18 OECD parliamentary democracies. The results broadly confirm that parties are 'political entrepreneurs' that are willing to increase the electoral salience of the second dimension when they are losers on the first dimension (Riker, 1986).

First, as expected, I have shown that PR systems with high levels of territorial diversity are particularly prone to have a higher dimensionality of the political space. Even though this is not a highly surprising result, it is nonetheless an important one. Additionally, I have documented a robust positive effect of economic inequality on the electoral priming of the salience of the territorial dimension. This is a finding in line with recent work

(Potter and Tavits 2013, Huber et al 2012) that suggest that right-wing parties might be willing to activate group-based politics as inequality increases. Therefore, structural variables such as economic inequality as well as the pre-existing social cleavages are shown to be important determinants of parties' strategies.

Second, I have shown that parties' incentives to emphasise the second dimension are crucially shaped by their electoral results and positions in a two-dimensional political space. Specifically, I have undertaken a dynamic test for heresthetics in which parties' rhetorical shifts regarding the territorial dimension are a function of their: (i) electoral results in the preceding elections; and (ii) distance to the average voter on the first left-right dimension. By interacting these two variables I have been able to show that parties increase the salience of the territorial second dimension after an electoral loss when they are distant from the average voter on the left-right dimension. I have established that this is a robust finding by using both dynamic fixed effects models at the party-level and hierarchical ones that take into account the nested structure of the data.

Interestingly, the electoral heresthetics results hold once I control for the average preferences of the electorate on the two-dimensions. Therefore, I am in a position to argue that parties are not simply being responsive to the preferences of the electorate but instead they strategically manipulate the salience of the second dimension. As a further robustness check, I have also fixed the positions of parties on the left-right dimension. Overall, the results in this chapter confirm that political parties strategically increase the dimensionality of the political space. Put succinctly, parties place a greater emphasis on the territorial-identity dimension after an electoral loss if they are "losers" on the first left-right dimension. This is an important finding that opens up many avenues for future research. Even more so if one recalls the results in the previous chapter where two-dimensional parties' preferences were shown to be crucial determinants of the dynamics of fiscal choices through coalition bargaining.

But the most interesting finding is that there are important differences in the extent to which different party types engage in heresthetical manoeuvres. While Conservative and Liberal parties seem to systematically engage in the strategic priming of the 2nd dimension, there is no evidence in that direction for the left-wing parties. Among the former, however, the results indicate that right-wing parties only strategically increase the salience of the territorial dimension when levels of territorial diversity are high. This result is consistent with the theoretical argument developed before; where I argued that right-wing parties are more likely to manipulate strategically the salience of the second dimension.

Figure 5.1: The Electoral Salience of the Territorial Dimension across Party Types

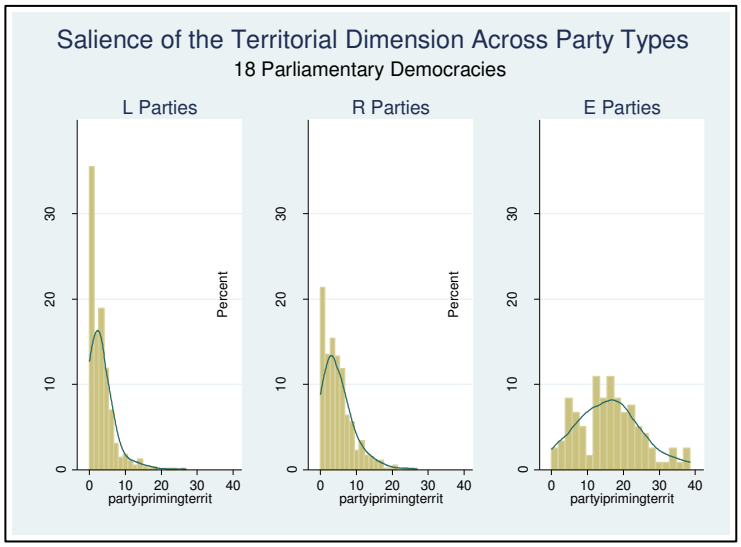


Figure 5. 2: The Positions of Political Parties, 18 Parliamentary Democracies

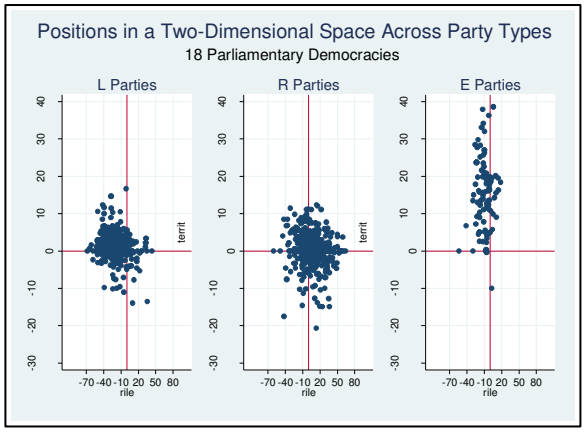


Table 5.1: Determinants of the Electoral Salience of the 2nd Dimension

DV: Electoral Salience 2nd Dimension	***Decentralization Issue-Scale Salience Scores***			
	Random Effects (5.1.1)	**Hierarchical (5.1.2)**	**Random Effects (5.1.3)**	**Hierarchical (5.1.4)**
Right Wing Parties	0.948**	0.432*	1.018*	0.650**
	(0.465)	(0.222)	(0.524)	(0.288)
Christian Democratic Parties	0.229	0.617**	0.265	0.455
	(0.388)	(0.289)	(0.456)	(0.419)
Regionalist Parties	9.003***	6.193***	7.888***	4.601***
	(1.454)	(0.435)	(1.668)	(0.639)
Nationalist Parties	-0.261	0.112	-0.183	0.036
	(1.175)	(0.666)	(1.580)	(0.956)
Other Parties	0.825	2.051***	0.890	1.846***
	(0.722)	(0.318)	(0.818)	(0.407)
Party Size$_{(t-1)}$	0.005	0.011	-0.007	0.004
	(0.016)	(0.011)	(0.021)	(0.016)
Shapley-Shubik Coalition Value$_{(t-1)}$	0.194	-0.753	0.442	-0.566
	(0.570)	(0.637)	(0.732)	(0.863)

Cabinet Party$_{(t-1)}$	0.097	0.345	-0.061	0.150
	(0.225)	(0.241)	(0.336)	(0.323)
Prime Minister Party$_{(t-1)}$	-0.482	-0.226	-0.263	-0.032
	(0.353)	(0.368)	(0.356)	(0.512)
Proportionality$_{(t)}$	-7.134***	-7.044***	-7.175***	-8.248***
	(1.794)	(1.918)	(2.218)	(2.265)
Cultural Diversity	-21.319***	-18.299***	-19.969***	-19.544***
	(5.800)	(5.898)	(6.040)	(6.623)
Proportionality$_{(t)}$ X Cultural Diversity	27.589***	28.708***	24.738***	27.932***
	(6.654)	(6.528)	(6.663)	(7.665)
Inequality$_{(t)}$			0.523	0.343
			(0.348)	(0.391)
Intercept	7.576***	6.786***	6.404***	7.169***
	(1.668)	(1.740)	(2.374)	(2.247)
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**
R-Squared (Between)	**0.4753**	**No**	**0.4079**	**No**
Log Likelihood Ratio Test	**No**	**159.1**	**No**	**41.98**
Party-Election N	**1,172**	**1,172**	**650**	**650**
Parties N	**157**	**157**	**142**	**142**
Countries N	**18**	**18**	**17**	**17**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

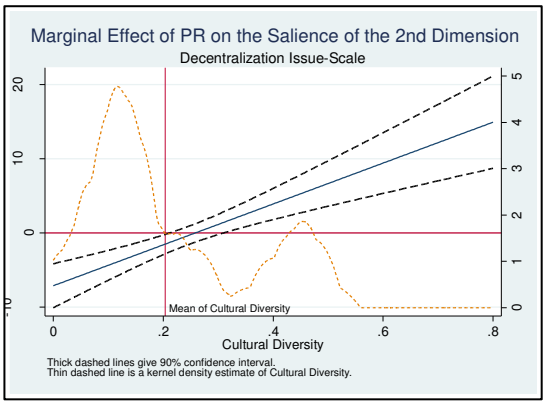
Table 5.2: Determinants of the Electoral Salience of the 2nd Dimension

DV: Electoral Salience 2nd Dimension	***Territorial Issue-Scale Salience***			
	Random Effects (5.2.1)	**Hierarchical (5.2.2)**	**Random Effects (5.2.3)**	**Hierarchical (5.2.4)**
Right Wing Parties	1.881***	1.111***	1.864***	1.167***
	(0.573)	(0.331)	(0.596)	(0.436)
Christian Democratic Parties	0.940	1.336***	0.593	1.035
	(0.632)	(0.431)	(0.688)	(0.635)
Regionalist Parties	11.693***	10.172***	10.355***	8.815***
	(1.921)	(0.648)	(2.117)	(0.959)
Nationalist Parties	10.457**	10.078***	12.729***	12.944***
	(4.318)	(0.994)	(4.342)	(1.445)
Other Parties	1.195	2.444***	1.606	2.529***
	(0.893)	(0.474)	(1.007)	(0.616)
Party Size$_{(t-1)}$	-0.011	-0.014	-0.017	-0.010
	(0.021)	(0.016)	(0.028)	(0.024)
Shapley-Shubik Coalition Value$_{(t-1)}$	0.372	-0.439	-0.030	-0.762
	(1.014)	(0.950)	(1.564)	(1.310)

Cabinet Party$_{(t-1)}$	-0.063	0.432	-0.160	0.456
	(0.289)	(0.360)	(0.387)	(0.489)
Prime Minister Party$_{(t-1)}$	-0.082	0.162	0.521	0.329
	(0.418)	(0.550)	(0.614)	(0.775)
Proportionality$_{(t)}$	-7.731***	-8.033***	-4.242	-5.618*
	(2.748)	(2.842)	(3.062)	(3.191)
Cultural Diversity	-22.186**	-22.778***	-14.548	-16.423*
	(8.951)	(8.682)	(9.228)	(9.153)
Proportionality$_{(t)}$ X Cultural Diversity	35.473***	42.943***	24.012**	31.066***
	(10.751)	(9.689)	(11.363)	(10.951)
Inequality$_{(t)}$			1.616***	1.437***
			(0.612)	(0.551)
Intercept	8.808***	8.205***	1.912	2.695
	(2.437)	(2.564)	(3.212)	(3.154)
Party Fixed Effects	**No**	**No**	**No**	**No**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**
R-Squared (Between)	**0.4569**	**No**	**0.4728**	**No**
Log Likelihood Ratio Test	**No**	**94.42**	**No**	**11.35**
Party-Election N	**1,172**	**1,172**	**650**	**650**
Parties N	**157**	**157**	**142**	**142**
Countries N	**18**	**18**	**17**	**17**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figures 5.3 and 5.4: Marginal Effect of PR on the Salience of the 2nd Dimension



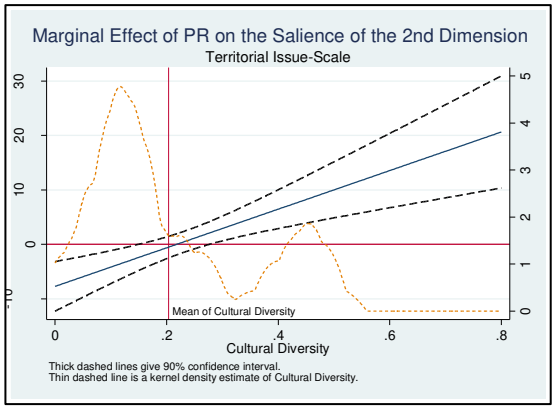


Table 5.3: Heresthetics Tests, All Parties Included

DV: Electoral Salience 2nd Dimension	***Decentralization Issue-Scale, All Parties***		***Territorial Issue-Scale, All Parties***	
	Fixed Effects (5.3.1)	**MLM (5.3.2)**	**Fixed Effects (5.3.3)**	**MLM (5.3.4)**
Heresthetics Test				
	-0.073**	-0.080**	-0.068	-0.094*
	(0.030)	(0.032)	(0.042)	(0.057)
Abs Distance to Av.Voter 1st Dimension $_{(t, t-1)}$	-0.033*	-0.042**	-0.065	-0.079**
	(0.019)	(0.022)	(0.047)	(0.038)
Electoral Loss$_{(t-1)}$ *X Abs Dist. to Av.Voter 1st*$_{(t, t-1)}$	0.015*	0.016***	0.022**	0.028***
	(0.007)	(0.006)	(0.009)	(0.010)
Preferences of the Electorate				
Average Electoral Preferences 2nd Dimension$_{(t)}$	0.579***	0.601***	0.470***	0.462***
	(0.110)	(0.056)	(0.162)	(0.097)
Average Electoral Preferences 1st Dimension$_{(t)}$	-0.361	0.164	-0.161	0.510
	(0.238)	(0.286)	(0.491)	(0.476)

Proportionality	2.213*	-7.929***	6.761***	-6.649**
	(1.266)	(2.060)	(2.012)	(3.326)
Cultural Diversity		-22.649***		-21.626**
		(6.292)		(9.711)
Proportionality$_{(t)}$ X Cultural Diversity		34.156***		41.575***
		(6.774)		(11.131)
Inequality$_{(t)}$	-0.059	0.463	0.560	1.550***
	(0.440)	(0.334)	(0.807)	(0.540)
Intercept	1.853	5.295**	-1.787	1.054
	(1.553)	(2.294)	(2.925)	(3.760)
Party Fixed Effects	**Yes**	**No**	**Yes**	**No**
Party Random Intercepts	**No**	**Yes**	**No**	**Yes**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**
R-Squared (Within)	**0.189**	**No**	**0.084**	**No**
Log Likelihood Ratio Test	**No**	**187.62**	**No**	**93.35**
Party-Election N	**602**	**602**	**602**	**602**
Parties N	**128**	**128**	**128**	**128**
Countries N	**17**	**17**	**17**	**17**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figure 5.5: Marginal Effect of an Electoral Loss, All Parties

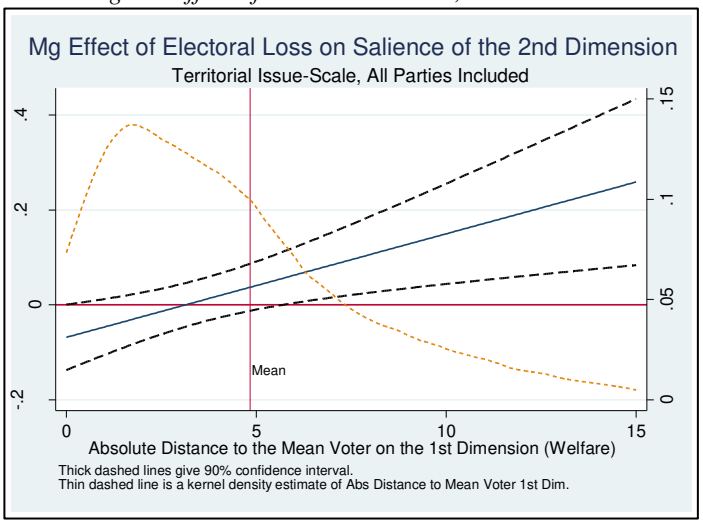


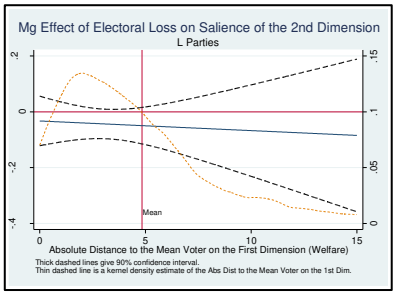
Table 5.4: Heresthetics Test Across Different Party Types

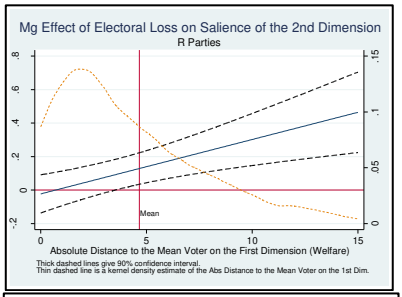
DV: Electoral Salience 2nd Dimension	***Left-wing Parties (L)***		***Right-wing Parties (R)***		***Regionalist Parties (E)***	
	FE	**MLM**	**FE**	**MLM**	**FE**	**MLM**
	(5.4.1)	**(5.4.2)**	**(5.4.3)**	**(5.4.4)**	**(5.4.5)**	**(5.4.6)**
Heresthetics Test						
Electoral Loss$_{(t-1)}$	-0.033	-0.083	-0.022	-0.028	-1.195	-0.843
	(0.052)	(0.070)	(0.067)	(0.084)	(0.867)	(0.598)
Abs Distance to Av. Voter 1st Dimension$_{(t, t-1)}$	-0.134***	-0.139***	0.082	0.032	-0.695***	-0.516***
	(0.039)	(0.047)	(0.081)	(0.056)	(0.231)	(0.148)
Electoral Loss$_{(t-1)}$ X Abs Dist. to Av. Voter 1st$_{(t, t-1)}$	-0.003	0.007	0.032***	0.035**	0.670**	0.385*
	(0.013)	(0.013)	(0.011)	(0.017)	(0.327)	(0.203)
Electoral Preferences						
Average Electoral Preferences 2nd Dimension$_{(t)}$	0.423	0.411***	0.083	0.120	2.632*	2.257**
	(0.261)	(0.114)	(0.293)	(0.160)	(1.392)	(0.944)
Average Electoral Preferences 1st Dimension$_{(t)}$	-0.437	0.316	0.344	0.829	-0.568	-3.732
	(0.442)	(0.411)	(1.488)	(0.879)	(6.451)	(4.197)

Proportionality$_{(t)}$	7.586**	-5.132	3.911	-5.257*		
	(3.234)	(3.430)	(2.347)	(2.993)		
Cultural Diversity		-18.495*		-4.311		
		(9.846)		(8.303)		
Proportionality$_{(t)}$ X Cultural Diversity		36.317***		21.740**		
		(11.953)		(10.711)		
Inequality$_{(t)}$	0.435	1.328**	-0.292	1.141*		
	(1.173)	(0.597)	(0.987)	(0.602)		
Intercept	-1.696	0.598	0.577	-1.353	10.535	26.660
	(3.845)	(3.431)	(7.006)	(5.821)	(30.366)	(19.663)
Party Fixed Effects	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Year Dummies	**No**	**No**	**No**	**No**	**Yes**	**Yes**
Party Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
R-squared (Within)	**0.165**	**No**	**0.061**	**No**	**0.714**	**No**
Log Likelihood Ratio Test	**No**	**5.4**	**No**	**1.62**	**No**	**32.42**
Party-Election N	**222**	**222**	**201**	**201**	**86**	**86**
Parties N	**40**	**40**	**36**	**36**	**16**	**16**
Countries N	**17**	**17**	**17**	**17**	**17**	**5**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figures 5.6, 5.7 and 5.8: Marginal Effect of an Electoral Loss across Party Types





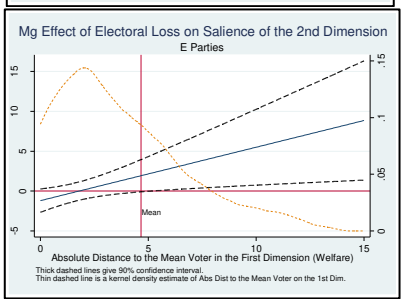


Table 5.5: Heresthetics Test, Fixing the Positions on the 1st Dimension

DV: Electoral Salience 2nd Dimension	***Full Sample***		***Full Sample***		***Right-wing Parties (R)***	
	FE	**MLM**	**FE**	**MLM**	**FE**	**MLM**
	(5.5.1)	**(5.5.2)**	**(5.5.3)**	**(5.5.4)**	**(5.5.5)**	**(5.5.6)**
Heresthetics Test						
Electoral Loss $_{(t-1)}$	-0.084*	-0.080	-0.088	-0.095	-0.271***	-0.245**
	(0.045)	(0.053)	(0.057)	(0.071)	(0.095)	(0.122)
Abs Distance to Av. Voter 1st Dimension $_{(\cdot, t-1)}$	0.594	0.027	0.286	-0.189	0.317	-0.251
	(0.474)	(0.246)	(0.686)	(0.280)	(1.669)	(0.412)
Electoral Loss$_{(t-1)}$ *X Abs Dist. to Av. Voter 1st* $_{(\cdot, t-1)}$	0.045*	0.046*	0.065*	0.077**	0.237***	0.233***
	(0.026)	(0.028)	(0.037)	(0.039)	(0.083)	(0.076)
Electoral Preferences						
Average Electoral Preferences 2nd Dimension$_{(t)}$	0.577***	0.584***	0.704***	0.675***	0.488**	0.388**
	(0.146)	(0.082)	(0.160)	(0.110)	(0.236)	(0.159)
Average Electoral Preferences 1st Dimension$_{(t)}$	-0.561*	-0.566	-1.166**	-0.328	-2.438	-0.549
	(0.315)	(0.355)	(0.448)	(0.476)	(1.628)	(0.857)

Proportionality$_{(t)}$			7.618***	-4.413	8.735***	-2.731
			(2.091)	(3.338)	(2.901)	(3.093)
Cultural Diversity				-21.288**		-10.331
				(9.928)		(9.398)
Proportionality$_{(t)}$X Cultural Diversity				37.780***		29.356**
				(11.764)		(12.158)
Inequality$_{(t)}$			2.385**	3.448***	4.332**	2.603***
			(1.106)	(0.632)	(2.091)	(0.705)
Intercept	3.531*	4.837**	-9.514*	-9.361**	-11.186	-6.048
	(1.799)	(2.361)	(5.581)	(4.459)	(16.922)	(6.330)
Party Fixed Effects	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Party Random intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
R-Squared (Within)	**0.140**	**No**	**0.275**	**No**	**0.454**	**No**
Log Likelihood Ratio Test	**No**	**526.82**	**No**	**111.06**	**No**	**5.44**
Party-Election N	**1,317**	**1,317**	**602**	**602**	**201**	**201**
Parties N	**148**	**148**	**128**	**128**	**36**	**36**
Countries N	**18**	**18**	**17**	**17**	**17**	**17**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figures 5.9: Marginal Effect of an Electoral Loss for R Parties, Fixing 1st Dim

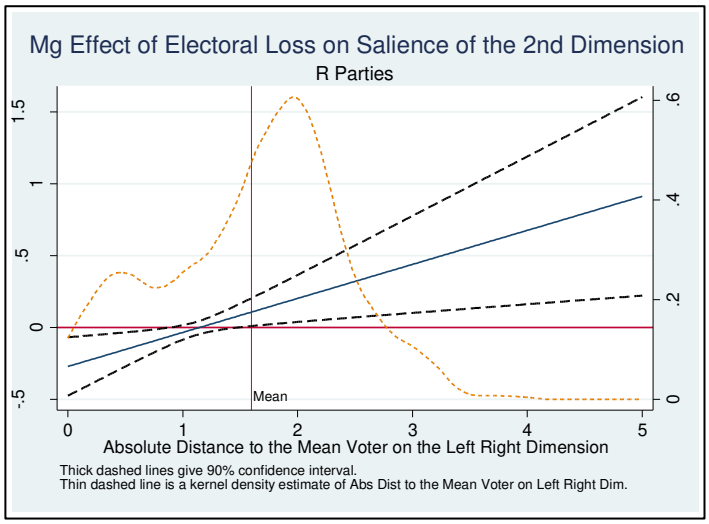


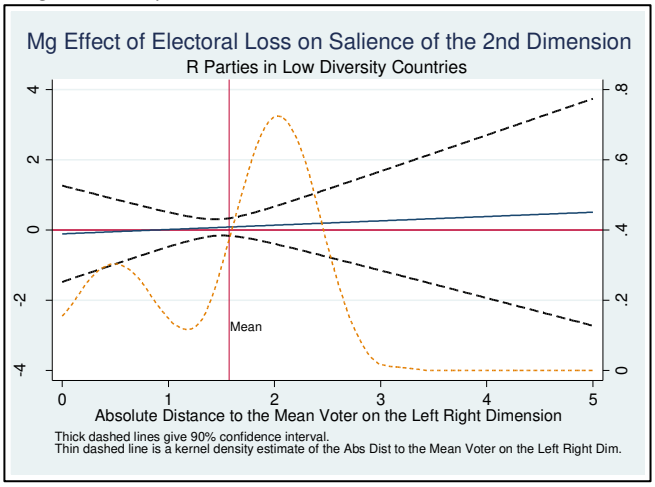
Table 5.6: Heresthetics Test, Low and High Territorial Diversity

DV: Electoral Salience 2nd Dimension	***R Parties in Low Diversity Democracies***				***R Parties in High Diversity Democracies***			
	FE (5.6.1)	**MLM (5.6.2)**	**FE (5.6.3)**	**MLM (5.6.4)**	**FE (5.6.5)**	**MLM (5.6.6)**	**FE (5.6.7)**	**MLM (5.6.8)**
Heresthetics Test								
Electoral Loss$_{(t-1)}$	0.250*	0.242	-0.107	-0.174	-0.193**	-0.171*	-0.311**	-0.330**
	(0.121)	(0.164	(0.217)	(0.227)	(0.077)	(0.099)	(0.125)	(0.138)
Abs Distance Av.Voter1st Dim	-1.260	-0.148	-2.478	-0.607	2.935**	-0.352	3.438	-0.638
	(2.146)	(0.369	(1.782)	(0.700)	(1.376)	(0.430)	(2.261)	(0.490)
Electoral Loss$_{(t-1)}$ X Abs Dist	-0.103	-0.102	0.123	0.149	0.113**	0.115**	0.295**	0.316***
	(0.073)	(0.078	(0.145)	(0.124)	(0.042)	(0.055)	(0.106)	(0.088)
Electoral Preferences								
Aver. Electoral Pref 2nd Dim	0.289	0.238	-0.041	-0.159	0.196	0.132	0.380	0.293
	(0.287)	(0.237	(0.395)	(0.362)	(0.261)	(0.205)	(0.299)	(0.251)
Aver. Electoral Pref 1st Dim	-1.077	-0.167	5.980*	1.701	-1.095	-0.174	-5.272***	-3.159**
	(1.731)	(0.807	(3.098)	(1.436)	(0.988)	(0.851)	(1.843)	(1.358)

Proportionality$_{(t)}$			2.123	19.186**			6.426*	4.740*
			(11.172)	(7.574)			(3.733)	(2.765)
Inequality$_{(t)}$			2.581	4.001**			4.467*	2.830***
			(2.854)	(1.855)			(2.313)	(0.953)
Intercept	7.928	1.444	-38.870**	-40.629***	3.511	3.613	18.155	18.106**
	(9.919)	(4.373	(13.907)	(13.235)	(5.271)	(5.915)	(19.331)	(9.079)
Party Fixed Effects	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Party Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
R-Squared (Within)	**0.525**	**No**	**0.752**	**No**	**0.265**	**No**	**0.513**	**No**
Log Likelihood Ratio Test	**No**	**17.57**	**No**	**15.59**	**No**	**35.69**	**No**	**2.28**
Party-Election N	**193**	**193**	**87**	**87**	**231**	**231**	**114**	**114**
Parties N	**13**	**13**	**12**	**12**	**27**	**27**	**24**	**24**
Countries N	**8**	**8**	**7**	**7**	**10**	**10**	**10**	**10**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figures 5.10 and 5.11: Marginal Effect of an Electoral Loss, R Parties, Low and High Diversity



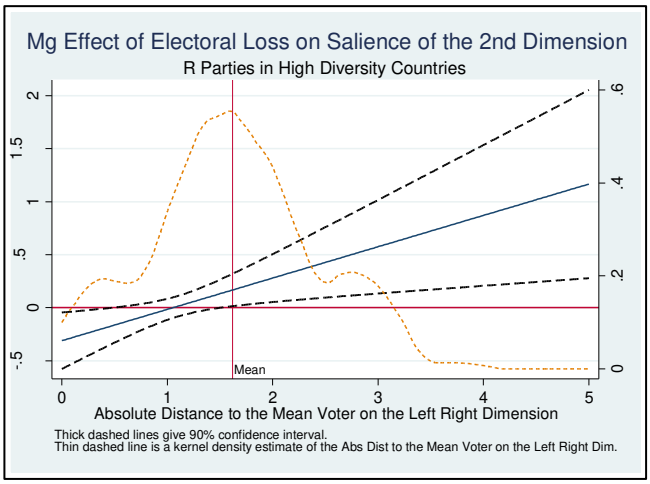


Table 5.7: Heresthetics Test Across Party Types, Robustness Check Including Year Dummies

DV: Electoral Salience 2nd Dimension	***Left-wing Parties (L)***		***Right-wing Parties (R)***		***Regionalist Parties (E)***	
	FE	**MLM**	**FEl**	**MLM**	**FE**	**MLM**
	(5.7.1)	**(5.7.2)**	**(5.7.3)**	**(5.7.4)**	**(5.7.5)**	**(5.7.6)**
Heresthetics Test						
Electoral Loss$_{(t-1)}$	-0.051	-0.071	-0.059	-0.014	-1.195	-0.843
	(0.052)	(0.064)	(0.070)	(0.074)	(0.867)	(0.598)
Abs Distance to Av. Voter 1st Dimension$_{(t, t-1)}$	-0.147***	-0.115***	-0.006	-0.004	-0.695***	-0.516***
	(0.053)	(0.044)	(0.042)	(0.051)	(0.231)	(0.148)
Electoral Loss$_{(t-1)}$ *X Abs Dist. to Av. Voter 1st*$_{(t, t-1)}$	0.001	0.013	0.031*	0.030**	0.670**	0.385*
	(0.013)	(0.012)	(0.016)	(0.015)	(0.327)	(0.203)
Electoral Preferences	0.499**	0.458***	0.483**	0.369**	2.632*	2.257**
	(0.230)	(0.123)	(0.236)	(0.161)	(1.392)	(0.944)
Average Electoral Preferences 1st Dimension$_{(t)}$	-1.149***	0.008	-2.486	-0.533	-0.568	-3.732
	(0.383)	(0.385)	(1.639)	(0.867)	(6.451)	(4.197)

Proportionality$_{(t)}$	4.537*	-6.475**	7.718***	-2.910		
	(2.498)	(3.036)	(2.704)	(3.103)		
Cultural Diversity		-17.962**		-8.331		
		(8.910)		(9.257)		
Proportionality$_{(t)}$ X Cultural Diversity		34.734***		26.434**		
		(11.227)		(12.138)		
Inequality$_{(t)}$	-1.163	1.633**	4.211*	2.296***		
	(2.088)	(0.651)	(2.104)	(0.700)		
Intercept	10.598	-0.522	-9.303	-5.123	10.535	26.660
	(9.869)	(4.420)	(16.058)	(6.287)	(30.366)	(19.663)
Party Fixed Effects	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Year Dummies	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Party Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
Country Random Intercepts	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
R-squared (Within)	**0.439**	**No**	**0.442**	**No**	**0.714**	**No**
Log Likelihood Ratio Test	**No**	**2.48**	**No**	**4.16**	**No**	**32.42**
Party-Election N	**222**	**222**	**201**	**201**	**86**	**86**
Parties N	**40**	**40**	**36**	**36**	**16**	**16**
Countries N	**17**	**17**	**17**	**17**	**5**	**5**

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

CHAPTER 6. THE INDIVIDUAL LEVEL: THE 2ND DIMENSION AND REDISTRIBUTIVE PREFERENCES

6.1 Empirical Implications at the Individual-Level

This chapter analyses the determinants of individuals' preferences for inter-regional redistribution. Few studies have addressed this issue in the existing literature, and those that are available have focused on the role of perceptions about inter-regional income differences and the strength of individuals' regional identity. The paucity of studies addressing this issue is striking, especially since territorial redistribution is a critical political issue in many federal and decentralized countries (Rodden 2010; Beramendi 2012). The most likely reason for this situation is the lack of individual-level data from reliable sources. Fortunately, this chapter exploits a unique dataset that contains high quality information on redistributive preferences and other political preferences for the Spanish case. Moreover, the survey employed enables comparison across regions and different party systems within Spain.

How do individuals form their preferences for inter-regional redistribution? This study explores the relationship between the dynamics of electoral competition and the formation of preferences for inter-regional redistribution. Electoral competition in Spain is multidimensional, and political parties strategically prime the salience of the dimensions of the political space in order to win votes. The issue of inter-regional redistribution is one of the most disputed aspects in Spanish

politics and it is at the core of the debate about the country's territorial structure. Both the left and the right state-wide parties prime the idea of nationwide solidarity, whereas conversely regionalist parties in Catalonia, for example, often invoke the region's fiscal grievances. Therefore, the mechanism I put forward here is based on the nature of electoral competition and, more specifically, on the salience of the 2nd dimension of party competition.

I argue that redistributive preferences at the individual-level are influenced by the prevalence of heresthetics (Riker 1986). Or in other words, that preferences for territorial redistribution are affected by how salient the 2nd dimension of political space is. Furthermore, I also argue that, in order to understand variation in levels of support for inter-regional redistribution, the dimensionality of the political space is a much more significant factor than regional income. The effects of party competition dynamics on redistributive preferences are studied both across and within regions.

This chapter develops two different strands of previous research. On one hand, the study draws on the literature of federalism, redistribution and ethnic conflict. Rodden (2006) and Wibbels (2006) questioned some of the conventional wisdoms on the benefits of political and fiscal decentralization and advocated putting the emphasis on the role of electoral competition when studying redistributive issues in federations and decentralized countries. Spolaore (2010) has discussed the sustainability of federations when there are redistributive tensions and regions can threaten to secede. And more recently, Beramendi (2012) has analysed the relationship between the geography of income inequality and the decentralization of redistribution. However, to date the study of preferences for inter-regional redistribution is a pending issue in this literature.

Additionally, this chapter builds on recent research that has renewed interest in the old concept of heresthetics put forward by Riker (1986, 1990). Recently, Dietrich and List (2011) have developed a formal model of endogenous preferences change in

which the salience of the dimensions of the political space is the crucial motivational force that affects individuals' preferences. My contribution here is to show that the rhetoric of political parties can influence the nature of individuals' redistributive preferences by affecting the salience of territorial issues. This is a novel idea that highlights the need to investigate further the redistributive effects of heresthetics when party competition is multidimensional. As Riker himself described the concept of heresthetics (Riker 1990, p. 40): '(…) *the distinguishing feature of heresthetics is that voters are induced to change sides, not by persuasion, but by reinterpretation of the issue. What made the voters appear to move, in this incident, was a change in the salient dimensions of the space'*.

Thus, the dynamics of electoral competition can affect individuals' political preferences by changing the dimensionality of the political space. In Spain almost all the political parties play the heresthetics game and strategically prime the second dimension of the political space. In fact, heresthetics with respect to the salience of territorial issues and the debate about the country's territorial structure is not a monopoly in the hands of regionalist parties (Fernández-Albertos 2002). The Spanish right-wing party also strategically manipulates the salience of the second dimension in order to polarize the electorate (Maravall 2008).

6.2 Spain: A PR System with Two-Dimensional Politics

Spain provides an ideal setup for studying the way in which multidimensional politics influence individuals' redistirbutive preferences. On one hand, both the left and the right state-wide parties support high levels of inter-regional redistribution. The left and the far-left state-wide parties (the PSOE and IU) have both historically favoured high levels of regional transfers from the richer towards the poorer regions. Poor regions like Andalucía have for many years been strongholds of PSOE core voters, and it

is therefore unsurprising that the PSOE has always supported the idea of national solidarity.

Interestingly, however, the right-wing party (the PP) has also supported a regional financing system characterized by high levels of redistribution between regions. The main reason for this is that the PP also has strongholds of core voters in poor regions, such as Galicia. Moreover, the PP also strategically manipulates the territorial dimension by using the strong rhetoric of Spanish nationalism and solidarity in order to polarize the electorate (Maravall 2008). As a result, there are not significant differences between the two main state-wide parties in their general support for high levels of inter-regional redistribution.

On the other hand, the picture looks completely different in those regions with regional identity cleavages, such as in Catalonia. In the Catalan party system the issue of inter-regional redistribution is very prominent on the political agenda, and all parties make various claims about the levels of fiscal transfers. Catalonia is a relatively rich region with a regional GDP per capita above that of Spain as a whole, and it is therefore a net contributor to the regional financing system. The regionalist Catalan parties argue that the level of inter-regional transfers is far too high. By using that rhetoric, they therefore argue for the fairer fiscal treatment of Catalonia. The most interesting point, however, is that this rhetoric has gradually become more prominent on the political agenda, and is currently widely used by the regionalist Catalan parties.

6.3 The Effects of the Salience of the 2nd Dimension

First, I expect that the salience of territorial issues should result in a direct effect on the formation of preferences for inter-regional redistribution. In this chapter I argue that the dimensionality of the political space is the crucial regional-level contextual factor that explains variation in levels of individuals' preferences for territorial redistribution. Moreover, I go further and argue that electoral competition is more helpful than

economic factors (such as inter-regional income differences) to explain variations in levels of support for regional redistribution.

Second, I expect the salience of the territorial 2nd dimension to condition the relationship between individual partisanship and redistributive preferences. We know little about the way in which individuals' partisanship shape particular issue preferences. Here I focus on providing a first exploration of the conditioning effects of the salience of the 2nd dimension by analysing how it affects the relationship between partisan attitudes and redistributive preferences. Specifically, I expect both right-wing and left Spanish partisanship to be associated with greater redistributive preferences when the debate about the territorial structure is prominent on the political agenda. That is, given that both the PP and the PSOE employ a powerful rhetoric of nationwide solidarity: the greater the salience of this rhetoric, the greater should be the support for territorial redistribution among both left-wing and right-wing partisans.

Third, inter-regional redistributive preferences are also shaped by the dynamics of the political socialization process. Recent literature has shown that individuals form their political preferences during their early adulthood, (the 'impressionable years'), and that afterwards their preferences are less likely to change. Interestingly, the characteristics of the political space in which different cohorts have been politically socialized has changed dramatically in the Catalan region. The old cohorts in Catalonia were politically socialized during the Franco dictatorship, whereas one of the main pillars of the nationalist agenda in Catalonia today is precisely to finish with the 'fiscal grievance'.

As a result, I argue that changes in the political space over time should also have an effect on individuals' redistributive preferences. The logic being a similar one but in opposite direction: the more salient the rhetoric of a 'fiscal grievance', the lower should be the support for nation-wide solidarity among regionalist partisans. But, given that this rhetoric has gradually increased over time, the effects should be stronger among the

young generations. Therefore, exploiting changes in the salience of the 2nd dimension over time enables me to test how it conditions the relationship between regionalist partisanship and redistributive preferences.

In order to summarize the previous theoretical discussion and inform the empirical analysis of the following sections, I offer the following hypotheses:

Hypothesis 1 (*'The effect of the salience of the 2nd dimension')*: The salience of the territorial 2nd dimension is associated with the levels of support for territorial redistribution across regions.

Hypothesis 2 (*'The conditioning effects of the 2nd dimension across regions'*): The relationship between left and right-wing Spanish partisanship and redistributive preferences is conditional to the salience of territorial issues.

Hypothesis 3 (*'The conditioning effects of the 2nd dimension within a region'*): The relationship between regionalist partisanship and redistributive preferences is conditional to the salience of territorial issues during the '*impressionable years'*.

6.4 Data and Variables

The dependent variable is individual preferences for inter-regional redistribution. Specifically, I employ Survey #2799 from the Spanish CIS (2009) in which the variable that measures support for inter-regional redistribution is *Prefregred*. The dependent variable is equal to 1 if the respondent supports an increase in territorial redistribution and 0 otherwise. Standard logistic and multilevel logistic regression models are used to estimate the factors that influence preferences for regional redistribution. Most importantly, the survey enables comparison across different regions within Spain. Therefore, I will make extensive use of cross-regional variation in the salience of the 2nd

dimension in order to explore how it affects individuals' redistributive preferences.

6.4.1 Variables at the Individual-Level

First, I factor in the strength of individuals' regional identity with the variable *Identity* -the well-known 'Linz question'. *Identity* is a bipolar scale in which one extreme represents a respondent who only identifies with the nation and at the other extreme a respondent who only identifies with the region. Specifically, the question asks to the respondents: "Which of the following phrases best expresses how you feel?". And the possible responses are "I feel Spanish only", "I feel more Spanish than Catalan", "I feel equally Spanish and Catalan" and "I feel Catalan only". The variable is centred on the mean. I also employ a battery of standard socio-demographic controls: *Unemployment*, *Student*, *Retired Status*, *Gender*, *Age Cohorts*, *Education and Income Class.* This set of individual controls is widely used in studies about preferences for inter-personal redistribution (Alesina and Giuliano 2009).

On the other hand, I measure individual perceptions about inequality with two variables: one that measures perceptions about regional inequality, and a second that measures individual perceptions about inter-personal inequality. I also use the variable *Belief Effort Pays*, a continuous scale that measures the extent to which individuals believe that 'effort pays off compared to luck'. I also include two continuous scales that measure individuals' political preferences along the two main dimensions of party competition: *Left-Right* and *Territorial*. Finally, I also make use of partisanship measures at the individual level. Specifically, I use the propensity to vote for each party as a measure of party support. All the scales are centered around the mean.

6.4.2 Variables at the Regional-Level

In the empirical analyses I also employ a set of regional-level variables to account for different economic and institutional characteristics across regions. Specifically, I use two economic controls at regional level: the *Regional GDP* per capita and the *Regional Fiscal Balance* with respect to the central government (Ministerio de Economía y Hacienda 2008). The Spanish Government published the regional fiscal balances in 2008, although they refer to the regional fiscal balances in the year 2005. There are various methods to calculate the fiscal balance for each region, but the basic idea is always to approximate the difference between the revenues raised by central government in a region, and the expenditure in the same region. Here I use the percentage of the fiscal balance calculated using the '*monetary flow'* methodology.

I also use two political variables that measure the characteristics of party competition at regional level. One is a dummy variable that takes value 1 if there are regionalist parties competing for electoral support, and 0 otherwise (*Regionalist Party System*). The second is a variable that measures the salience of territorial 2nd dimension in each region. The measure of salience is inspired in polarization measures that are widely-used in the literature. According to this salience index the Basque Country, Catalonia and Navarra are the regions in which territorial is most salient. But interestingly Madrid, which does not have regionalist parties, is in fourth place. The reason for this, most likely, is the rhetoric of nation-wide solidarity that both the left and the right Spanish parties advocate and is most prominent in Madrid.

Specifically, the variable *Salience of the 2nd Dimension* in every region is calculated by taking the mean position of political parties in the territorial dimension and averaging over the sum of quadratic distances between the mean position for each party and the center of the scale. Both the mean positions of parties and the scale are centered around 0. The mean positions of political parties

at the regional level are obtained from the individual-level data. Note that only the right-wing party (PP) and the left-wing party (PSOE) are included in order to construct a comparable index across regions. Therefore, the formula applied in each region to obtain a measure of the salience of the territorial 2nd dimension is as follows:

$$ElectoralSalience_{region(i)} = \frac{1}{2}\sum\left(Left\ Party^{\substack{MeanPosition \\ TerritorialStructure(i)}}\right)^2 + \left(Right\ Party^{\substack{MeanPosition \\ TerritorialStructure(i)}}\right)^2$$

6.5 Results

First, I start by simply illustrating the levels of preferences for inter-regional redistribution. Note that across regions the average level of support for regional redistribution varies quite dramatically, between 50 per cent and 97 per cent, as is shown in Figure 6.1. This makes it clear that levels of support for territorial redistribution vary substantially across regions. In regions like Asturias, Aragon, Cantabria o Canarias the levels of support for territorial redistribution are very high. A vast majority of the population seem to support a higher redistributive financing system. However, in regions like Catalonia, Valencia or Baleares the support is much lower. Understanding the economic and political determinants of such variation is the objective here.

The two scatter plots in Figure 6.2 show the average levels of support territorial redistribution against two structural factors of interest: *Regional GDP* and the *Strength of Regional Identity* in each region. The latter it is simply constructed by averaging over the individuals of a given region their subjective national identity. Therefore, a high value implies that the regional identity is highly prominent in a given region (that's the case in Catalonia or the Basque Country) whereas, conversely, a low value implies that most of the individuals identify themselves with the nation and not with the region.

Interestingly, in the top panel of Figure 6.2 it is possible to see a clear-cut negative relationship between Regional GDP and average support for territorial redistribution. Although, surprisingly enough, Madrid stands out as a clear outlier since its support for territorial redistribution is higher than the expected. This poses an important puzzle: why the average levels of support for territorial redistribution are so high in a relatively rich region? On the other hand, in the lower panel of Figure 6.2 I show a negative relationship between the strength of regional identity and redistributive preferences. That is, those regions in which a distinct regional identity is stronger (Navarra, Basque Country, Catalonia) are less supportive for nationwide redistribution. The task, then, is to uncover the mechanism by which regional identity affects redistributive preferences.

6.5.1 Base Line Models: Hierarchical Logistic Models

Now I turn to more detailed empirical analyses. In most of the analyses that follow I employ hierarchical logistic regressions. The advantage of using multilevel logistic regressions is that the estimates they provide for the distribution of overall preferences at the indivdual level is a mix of a regression on region-level means (between groups) and a regression on individual-level variation (within groups). Note that multilevel logistic regressions weight the estimates by the reliability of regional (group) means; and that reliability is dependent on between regions variance, within regions variance and group-sizes. Therefore, multilevel logistic regressions are useful to estimate to what extent cross-regional variation in the salience of the 2nd dimension is associated with individuals' redistributive preferences.

First, Model (6.1.1) is an empty multilevel logistic model with random intercepts in which neither individual-level variables nor regional-level variables are included. Note simply that the variance component for the random intercepts (levels of preferences) across different regions is 0.93. Model (6.1.2)

includes all the individual-level variable controls. As expected, the greater the strength of individuals' regional identity, the lower the demand for regional redistribution. Also, the more ideologically right prefer lower levels of inter-regional redistribution. On the other hand, those individuals who are more aware of inter-regional and inter-personal inequality tend to be more supportive of regional redistribution. But what is much more interesting is that the variance component at the second level for the random intercepts across regions is now 0.78 –it is 0.93 in the empty model. In other words, the variance for the random intercepts (levels of preferences) is not significantly reduced, when we take into account the different compositions of regions by people with specific individual-level characteristics.

In order to identify why the estimate of the variance for the random intercepts is not considerably reduced in model (6.1.2) I undertake a simple exercise. I plot the empirical Bayes estimates for the random intercepts (levels of preferences) from model (6.1.2) against my regional-level variables of interest in Figures 6.3 and 6.4 below. If we would take all the estimates from the fixed part of the model (6.1.2) and set them to zero, then we would obtain the predicted level of preferences in a region with a random intercept equal to 0. However, it is interesting to note that some regions still have significantly higher or lower levels of preferences than the grand mean. Therefore, the data points in Figures 6.3 and 6.4 can be interpreted as regional-level residuals; and by plotting them against my regional-level variables of interest we can explore if they correlate in a meaningful way.

Figure 6.3 plots the empirical Bayes estimates for the random intercepts (levels of preferences) from model (6.1.2) against the regional GDP variable. As expected, I observe a negative relationship between the random intercepts and the regional GDP. This suggests that richer regions support lower levels of redistribution –which is something that we do not capture with the individual-level variables alone. Note, however, that Madrid is again an outlier, since it is well above the fitted regression line. Similarly, in Figure 6.4 I observe a positive relationship between

the empirical Bayes estimates for the random intercepts and the regional fiscal balances. This suggests that regions with a negative fiscal balance support lower levels of redistribution, and the opposite would be true for regions with positive fiscal balances. Note that Catalonia has a remarkable fiscal imbalance equivalent to -8.7 per cent of the regional GDP.

Second, I also plot the empirical Bayes estimates for the random intercepts against the variable that measures the salience of the 2nd dimension in Figure 6.5. Interestingly, there seems to be a significant strong negative relationship between the salience of the territorial 2nd dimension and the residuals at the regional-level. However, it is very clear that Catalonia and the Basque Country stand out as prominent outliers. That is expected since they are the two regions where the regional identity dimension is more salient. Nevertheless, if one takes out both outliers and replicate the same plot (see Figure 6.6), the strong negative relationship remains. Thus, Figures 6.5 and 6.6 taken altogether clearly suggest that the salience of the territorial 2nd dimension is an important second-level factor that explains variance in the levels of redistributive preferences across regions.

Now I turn to discuss the models in which I introduce the regional-level variables. When in model (6.1.3) I include the dummy variable for regionalist party systems the variance at the second level drops from 0.78 to 0.50. Whereas when the two economic controls at the regional level are also included in model (6.1.4) the variance drops to 0.18. Note, however, that out of the two economic variables (*Regional GDP* and *Regional Fiscal Balance*) only the regional fiscal balance exerts a positive and statistically significant effect. These results confirm that the regional fiscal balance variable has a significant impact on the levels of support for regional redistribution.

But the most striking finding is that in model (6.1.5) the inclusion of the variable that measures the salience of the territorial 2nd dimension makes the estimate of the variance at the second level drop from 0.78 to 0.11. But most importantly, the effect of the salience of the territorial dimension is robust to the

inclusion of the two economic controls, when the variance finally drops to 0.023. Again, the regional GDP has no effect on preferences for regional redistribution in model (6.1.6). In fact, if I take out the regional fiscal balance variable, the regional GDP variable is also not statistically significant.

From the preliminary results in Table 6.1 I can already conclude that the variance in levels of preferences for regional redistribution is fundamentally driven by the salience of the 2nd dimension of electoral competition. Also, it is worth emphasizing the huge drop in the variance component once I include the regional-level variables. This actually means that the bulk of the explanation of the random intercepts (levels of preferences) is achieved not through different compositions of regions by people with specific characteristics, but by the regional-level variables. This is especially true for the salience of the territorial 2nd dimension, which on its own causes a drop in the variance component from 0.78 to 0.11.

In Table 6.2 I explore further the robustness of the effect of the salience of the territorial 2nd dimension on the levels of redistributive preferences across regions. The main difference in Table 6.2 is that includes an interaction term between the *Regional GDP* and the *Strength of the Regional Identity* variables. The rationale for doing this is to check if inter-regional income differences and the strength of regional identity variable interact. It is reasonable to expect that richer regions will support lower levels of territorial redistribution when they are also regionally identified. This is the case of regions like the Basque Country and Catalonia. Both are rich regions with high levels of a distinct regional identity. Interestingly, though, the coefficient for the salience of the 2nd dimension remains robust in models (6.2.3) and (6.2.4). In fact, the interaction term between regional GDP and identity strength is not statistically significant in model (6.2.3) and only barely significant in model (6.2.4). Therefore, Table 6.2 suggests that the salience of the 2nd dimension is a better predictor of the average levels of support for territorial redistribution than regional income and the average strength of regional identity.

6.5.2 Individual Partisanship and Redistributive Preferences

In this section I test my second hypothesis, namely whether or not the salience of the territorial 2nd dimension conditions the relationship between partisanship and redistributive preferences. As discussed before, the logic behind this conditioning effect would be a consequence of the priming by political parties of territorial issues. I proceed with a very similar empirical strategy to the one in the previous section. The main difference, however, is that now the models include partisanship attitudes as individual-level variables. Partisanship variables measure the propensity to vote (PTV) for a given party for every individual in a scale that ranges from 0 to 10 –although I have centred the propensity to vote around 0.

In order to disentangle the effects of partisanship and the salience of the 2nd dimension I also make use of multilevel logistic regressions but this time estimating cross-level interactions between partisanship attitudes and the salience of the 2nd dimension. Note, however, that I need to have comparable measures of partisanship at the individual-level across all regions for the same parties. In order to satisfy that restriction, I test my second hypothesis for left partisanship (PSOE) and right partisanship (PP). The theoretical expectation is that given that both the PP and the PSOE make similar positive claims about regional redistribution and nationwide solidarity, both left and right partisanship should have a positive effect on preferences for regional redistribution when territorial issues are prominent on the political agenda.

But when territorial issues are less salient, I expect that both PP and PSOE partisanship have no effect (or a lesser one) on redistributive preferences. It is also worth emphasizing that this is a much harder test than that undertaken in the previous section, since I now directly estimate how individual partisanship affects redistributive preferences in different ways depending on the salience of the 2nd dimension. Arguably, I am putting forward a

more nuanced test of the effects of party rhetorical strategies on individual preferences through individual partisanship.

To confirm my second hypothesis using multilevel logistic regressions would imply that left and right Spanish partisanship in a randomly chosen region have a positive effect on redistributive preferences when the 2nd dimension is more salient. This explanation would provide a more detailed response to the puzzle that Madrid poses: namely, that a relatively rich region nonetheless has a strong preference for regional redistribution. The answer would be that partisans support high levels of regional redistribution because territorial issues are salient. In the previous section I have shown that the salience of the 2nd dimension exhibits a positive effect on redistributive preferences when national pride is high. Following the same logic, in this section I make one step further and investigate if the mechanism that explain such finding is that both right and left-wing Spanish partisanship are associated with greater redistributive preferences when territorial issues are more prominent on the political agenda.

Model (6.3.1) in Table 6.3 is a multilevel logistic regression with random intercepts at the regional-level but also, and that's the novelty, with random slopes for left and right partisanship. The model includes as controls at the regional level the dummy variable for regionalist party systems, regional GDP and regional fiscal balances. Interestingly, I find that in a randomly chosen region left partisanship is associated with more demand for regional redistribution, but right partisanship is not. Similarly, model (6.3.2) also includes random intercepts and random slopes for the partisanship variables, but this time with the variable that measures the salience of territorial instead of the regionalist party system dummy. Again, left partisanship is associated with greater preferences for regional redistribution, but not right partisanship.

But most importantly, model (6.3.3) includes the cross-level partisanship interactions between the individual partisan variables and the dummy variable for the regionalist party system. Strikingly, I find a statistically significant coefficient for the interaction between right-wing partisanship and the dummy for

regionalist party systems. Similarly, in model (6.3.4) I find a robust and statistically significant cross-level interaction between right partisanship and the salience of the 2nd dimension of electoral competition. This means that right-wing partisanship has different effects across different regions and that it has a positive effect when territorial is more salient.

Therefore, the results in Table 6.3 clearly show that the salience of the 2nd dimension conditions the relationship between partisan attitudes and redistributive preferences. Interestingly, right-wing partisanship does not show any effect on the random slopes models (6.3.1) and (6.3.2). However, once I take into account that the effects of partisanship might depend on the salience of the 2nd dimension, I do find a positive effect of right-wing partisanship on redistributive preferences in a randomly chosen region. This last result implies that right-wing partisans support higher levels of regional redistribution when the salience of the territorial debate is greater.

The positive effect of right-wing partisanship on redistributive preferences is mainly driven by right-wing Spanish partisans in regionally identified constituencies in the Basque Country and Catalonia. That is, right-wing Spanish partisans are likely to support higher levels of territorial redistribution in those regions since both the nation-wide and the regional branch of the PP party favour a vision of nation-wide solidarity. But as explained before, this finding also provides room for a mechanism that might be useful to explain why levels of support for redistribution are high in Madrid. The strong rhetoric of Spanish nationalism and solidarity by the PP is also likely to be responsible for the positive association between right-wing partisanship and support for redistribution. Note that since the cross-level right-wing partisanship interaction is significant it implies that in a randomly chosen region the mechanism hold, and therefore both cases are likely to be true –that is, for both Catalonia/Basque Country and Madrid.

Table 6.4 also explores how the territorial 2nd dimension conditions the relationship between partisanship and redistributive

preferences. The main difference is that it includes an interaction term at the second-level between the strength of regional identity and the regional GDP. Recall that this interaction is introduced to account for the possibility that the two structural determinants interact and jointly determine the levels of support for territorial redistribution. Interestingly, now the cross-level partisanship interactions are significant for both right-wing and left-wing partisanship in model (6.4.2). That is, left-wing and right-wing partisanship are now both positively associated with greater support for redistribution when the 2nd dimension is salient. Before the cross-level left-wing partisanship interaction felt short of statistical significance.

Most strikingly, the two cross-level partisanship interactions in Table 6.4 are very similar in magnitude in model (6.4.2). In that sense, right-wing and left-wing partisanship behave very similarly when the 2nd dimension is salient. In other words, when the territorial debate is salient on the agenda, both left and right Spanish partisanship are associated with greater support for territorial redistribution in a randomly chosen region. As discussed before, the most likely reason that possibly explains such phenomenon is that both the PP and the PSOE favour the nation-wide solidarity with positive claims about territorial redistribution. However, when in model (6.4.4) I also include the individuals' perceptions of individual and inter-regional inequality the cross-level left-wing partisanship interaction falls again short of statistical significance. Therefore, the salience of the 2nd dimension seems to condition much more strongly the relationship between right-wing partisanship and redistributive preferences..

6.5.3 The Catalan Case

This chapter now turns to investigate the relationship between regionalist partisanship attitudes and redistributive preferences among cohorts within the Catalan region. That is, I will now test my third and last hypothesis. Note that until this point I have

focused on exploring how variation in the salience of the territorial 2nd dimension across regions explains the levels of support for territorial redistribution. However, if the proposed mechanism is at work –namely, how the rhetoric of political parties affects individuals' redistributive preferences– it should also explain preference formation within a single region. That should be the case if the salience of issues related to territorial redistribution has changed over time. This is clearly the case in the Catalan region, in which the salience of the territorial 2nd dimension has gradually increased over time. Specifically, the debate about the size and scope of inter-regional redistribution has increased dramatically in Catalonia, to the point where it is now one of the most prominent issues on the political agenda.

As noted above, recent research on political socialization (Stoker and Jennings 2008; Dinas 2010), has shown that individuals form their political attitudes in the early stages of their adulthood. Stoker and Jennings (2008) discuss a model in which individuals' openness to political learning declines with age, whereas the party-issue constraint on individuals' positions increases with age. Furthermore they argue that the effect of partisanship on issue preferences is contingent upon the dynamics of political socialization, and that younger people might be more influenced by 'noticeable' political events. In a closely related argument, Giuliano and Spilimbergo (2009) contend that growing up during a recession affects the formation of individuals' beliefs and preferences about redistribution.

Similarly, here I expect that the effect of regionalist partisanship on redistributive preferences should vary across different age cohorts within the Catalan region. The main reason is that the 'old cohorts' in Catalonia were politically socialized under the Franco dictatorship, whereas the 'young cohorts' have been socialized in a fully-fledged multidimensional party system. During the dictatorship the regional-identity aspirations in Catalonia were severely repressed. However, the significance of territorial issues has increased very substantially under democracy to become one of the central aspects of Catalan politics. Moreover,

the rhetoric of regionalist parties towards inter-regional redistribution has increased over time, and has placed increasing emphasis on Catalonia's fiscal grievance. These dramatic changes in the characteristics of the socialization periods (the so-called 'impressionable years') should modify the effect of regionalist partisanship on redistributive preferences between different Catalan cohorts.

In order to test my third hypothesis, I construct dummy variables for three different age cohorts: Cohort 1 refers to individuals aged 34 or less at the time the survey was undertaken; Cohort 2 refers to individuals aged between 34 and 44; and finally, Cohort 3 refers to individuals aged 45 or more. The choice of cut-off points is based on the political characteristics of the various socialization periods. Individuals aged 45 or more were predominantly politically socialized during the dictatorship, or at the very beginning of the transition period. As a mid-range, individuals between 34 and 44, were mainly politically socialized during the 1980s, under democracy. Finally, individuals aged 34 or less have been politically socialized in the 1990s and 2000s when the dynamics of electoral competition in a multidimensional party system have been fully established, and the salience of the inter-regional redistributive conflict has become more prevalent on the Catalan political agenda.

Model (6.5.1) in Table 6.5 includes the same individual-level controls as in previous sections, but I now focus on the effects within a single region, Catalonia. Therefore, instead of using multilevel logistic regressions now I employ a standard logistic regression. As expected in this case, regionalist partisanship (i.e. support for CiU) is negatively associated with redistributive preferences. Furthermore, the identity-centered variable is negatively associated with redistributive preferences. In model (6.5.2) I include left and right partisanship as well and I find that both are associated with greater redistributive preferences. Note that this is perfectly coherent with the results of the previous section, according to which left and right partisanship are

positively associated with support for regional redistribution when the territorial 2nd dimension is salient.

Model (6.5.3) includes the interactions between regionalist partisanship and the age cohort dummies. The dummy for cohort 1 (the young group) is the reference category, in such a way that the coefficient for the main effect of regionalist partisanship now captures the effect for the first cohort –which is as expected negative and significant. The most striking finding, though, is that the coefficient for the interaction term between regionalist partisanship and cohort 3 (the old cohort) is instead positive and significant. These results show that the effect of regionalist partisanship on redistributive preferences varies between cohorts. Similarly, when in model (6.5.4) I include the controls for left and right partisanship, the difference between the effects of partisanship between cohorts remains. Finally, in model (6.5.5) I run the same model but only for those individuals born in Catalonia. Since there was high immigration from the rest of Spain to Catalonia in the 1950s and 1960s, some might argue that this is the reason for differences between the cohorts. However, I find again that regionalist partisanship has different effects for different cohorts.

In order to illustrate the results form Table 6.5 in Figure 6.7 I plot the predicted probabilities of support for territorial redistribution at different regionalist partisanship values for different cohorts. Specifically, I plot the predicted probabilities using the estimated coefficients in model (6.5.3). It will be remembered that according to expectations, younger people should be more influenced by prominent current issues on the political agenda, whereas older cohorts should have more 'sticky' political preferences. In other words, I expect a steeper negative relationship between regionalist partisanship and redistributive preferences for the young cohort than for the old one. In fact this is exactly what is illustrated in Figure 6.7. The top panel shows that the relationship between regionalist partisanship and redistributive preferences is basically flat for the old cohort,

whereas it is clearly negative when I plot the predicted probabilities for the young cohort in the bottom panel.

6.6 Conclusions

In this chapter I have explored the formation of preferences for territorial redistribution in Spain, a country in which the territorial cleavage is obviously highly salient and party competition is multidimensional. The argument that I have put forward to explain the formation of redistributive preferences is the key role played by the rhetoric of political parties. In Spain parties make continuous claims and employ different rhetoric regarding the territorial structure and the design of the inter-regional redistributive system. In this way they affect the salience of the territorial second dimension, which in turn I argue affects the formation of redistributive preferences.

I have tested three different hypothesis exploiting variation in the electoral salience of the territorial dimension both across regions and within a single region. First I have shown that there is a great deal of variation across regions in the levels of support for regional redistribution. But most notably, I have shown that the bulk of the variation across regions is explained not by individual-level characteristics, but through differences in regional-level variables. Specifically I have shown that it is the electoral salience of the second dimension that drives such variation. Even when taking into account the role of structural determinants such as regional GDP, regional fiscal balance and the strength of regional identity in each region, the effect of the salience of the territorial dimension remains very strong. Interestingly, though, I have also provided evidence according to which the effect of the second dimension is contingent upon the latent distribution of regional identity across the geography.

Afterwards, I have shown that the effects of individual partisanship on redistributive preferences vary depending on the salience of the territorial dimension. In other words, the rhetoric by political parties conditions the relationship between individual

partisanship and support for redistribution. Specifically, I have shown that both left-wing and especially right-wing partisanship are positively associated with redistributive preferences when territorial issues are prominent on the political agenda. In order to test these hypotheses I have employed cross-level partisanship interactions in multilevel logistic regressions. Most interestingly, the conditioning effect of the territorial dimension of the relationship between partisanship and redistributive preferences mechanism can explain not only why levels of support for regional redistribution are low in Catalonia and the Basque Country but also why the levels are so high in Madrid.

Finally, I have exploited variation in the salience of the 2nd dimension within the Catalan region, where the importance of the regional redistribution issue has increased dramatically over time. The "impressionable years" were dramatically distinct for the old and young cohorts in that region since the former grew up still during the Franco era whereas the latter have been socialized in a fully-fledged two-dimensional party system. As a result, the effect of regionalist partisanship on redistributive preferences varies among Catalan cohorts. This variation has enabled me to test how the electoral salience of the second dimension also conditions the relationship between regionalist partisanship and redistributive preferences. For the old cohorts the relationship between regionalist partisanship and support for territorial redistribution is basically flat. However, among the young cohorts, greater regionalist partisanship is clearly associated with lower preferences for inter-regional redistribution. This result suggests that among regionally identified individuals the greater the salience of the second dimension of party competition, the lower the nation-wide redistributive preferences.

Overall, this chapter has demonstrated that the electoral salience of the territorial-identity dimension of the political space has a significant impact on the formation of redistributive preferences. Interestingly, as far as I know this chapter has provided one of the few efforts in the literature to estimate how a second dimension conditions the relationship between individual

partisanship and redistributive preferences. However, many further empirical efforts are required to understand the mechanisms by which multidimensional politics affect the formation of redistributive preferences. Specifically, future work should investigate further the effects of political polarization and its implications with respect to individual preferences.

Figure 6.1: Average Preferences for Inter-Regional Redistribution across Regions

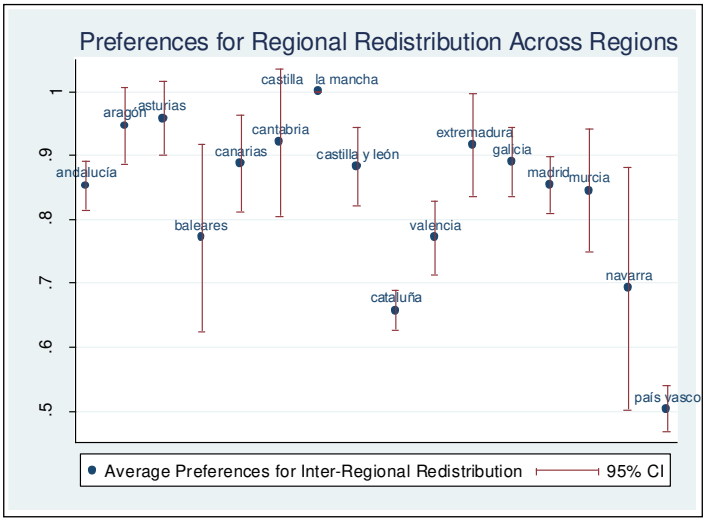
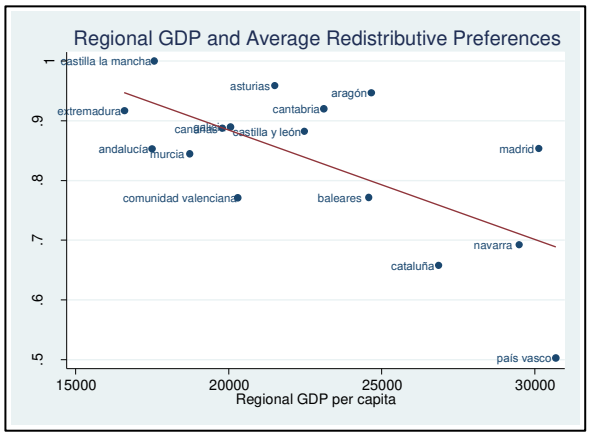


Figure 6.2: Determinants of Average Support for Regional Redistribution



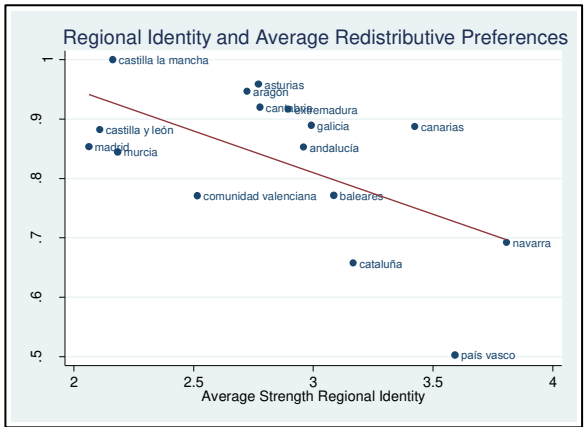


Figure 6.3: Regional-Level Variables: Regional GDP

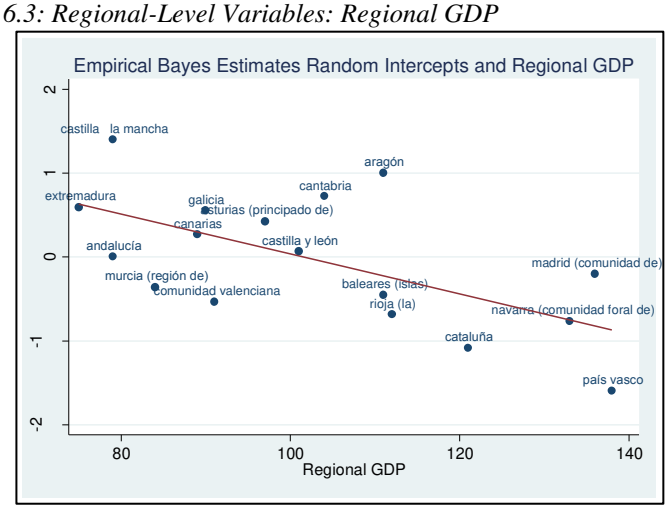
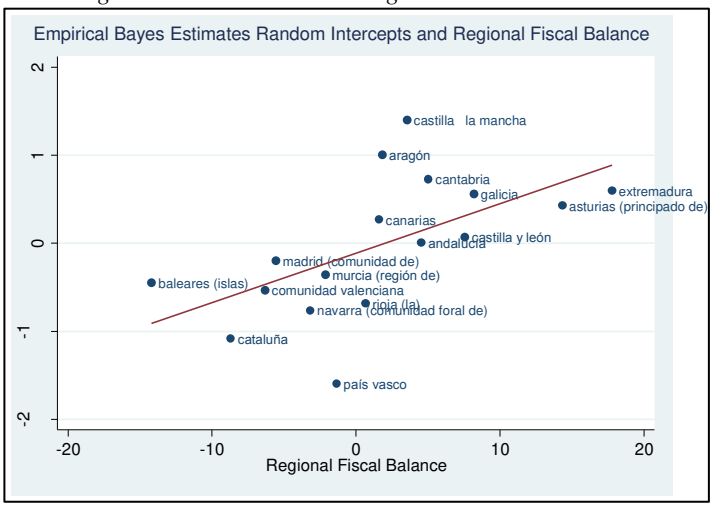
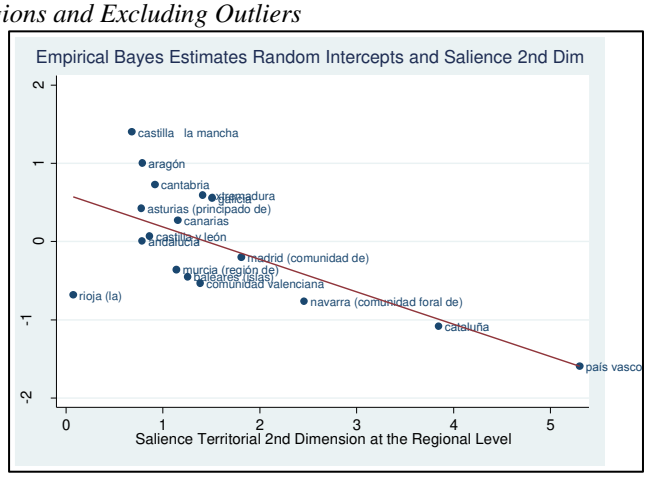


Figure 6.4: Regional-Level Variables: Regional Fiscal Balance



Figures 6.5 and 6.6: The Effect of the Salience of 2nd Dimension, All Regions and Excluding Outliers



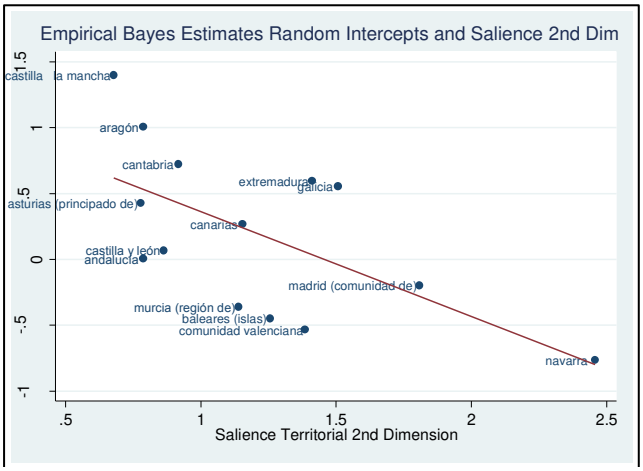


Table 6.1: Base-Line Models

Multilevel Logistic Regressions Preferences for Inter-Regional Redistribution	**Model (6.1.1)**	**Model (6.1.2)**	**Model (6.1.3)**	**Model (6.1.4)**	**Model (6.1.5)**	**Model (6.1.6)**
Individual-Level Variables						
Individual Regional Identity		-0.226***	-0.222***	-0.227***	-0.219***	-0.230***
		(0.058)	(0.058)	(0.058)	(0.058)	(0.058)
Left-Right Scale		-0.055*	-0.056*	-0.056*	-0.058**	-0.057*
		(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Territorial Scale		-0.036	-0.035	-0.033	-0.036	-0.031
		(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Perception Regional Inequality		1.429***	1.432***	1.436***	1.435***	1.449***
		(0.143)	(0.143)	(0.142)	(0.142)	(0.143)
Perception Individual Inequality		0.602***	0.602***	0.605***	0.610***	0.605***
		(0.169)	(0.169)	(0.168)	(0.168)	(0.168)
Belief Effort Pays		0.028	-0.028	-0.028	-0.028	-0.028
		(0.012)	(0.012)	(0.012)	(0.012)	(0.012)

Socio-Demographic Individual Controls	No	Yes	Yes	Yes	Yes	Yes
Regional-Level Variables						
Regionalist Party System			-1.057**	-0.643*		
			(0.458)	(0.362)		
Salience Territorial 2nd Dimension					-0.436***	-0.372***
					(0.083)	(0.081)
Regional GDP				-0.010		0.002
				(0.009)		(0.006)
Regional Fiscal Balance				0.055**		0.041**
				(0.023)		(0.017)
Constant	1.774***	-0.305	-0.065	0.802	0.298	-0.034
	(0.257)	(0.468)	(0.466)	(0.993)	(0.45)	(0.696)
Variance second Level (Estimate)	**0.935**	**0.788**	**0.507**	**0.184**	**0.111**	**0.023**
Variance second Level (Std.Error)	**0.419**	**0.387**	**0.279**	**0.123**	**0.141**	**0.04**
Observations	**3,069**	**2,202**	**2,202**	**2,202**	**2,202**	**2,202**
Number of groups (Regions)	**17**	**17**	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 6.2: The Effect of the Salience of the 2nd Dimension

Multilevel Logistic Regressions Preferences for Inter-Regional Redistribution	**Model (6.2.1)**	**Model (6.2.2)**	**Model (6.2.3)**	**Model (6.2.4)**
Individual-Level Variables				
Individual Regional Identity	-0.226***	-0.219***	-0.219***	-0.225***
	(0.058)	(0.057)	(0.058)	(0.058)
Left-Right Scale	-0.055*	-0.058**	-0.057*	-0.055*
	(0.030)	(0.029)	(0.030)	(0.029)
Territorial Scale	-0.036	-0.036	-0.036	-0.028
	(0.025)	(0.025)	(0.025)	(0.025)
Perception Regional Inequality	1.429***	1.435***	1.433***	1.451***
	(0.143)	(0.142)	(0.142)	(0.142)
Perception Individual Inequality	0.602***	0.610***	0.616***	0.611***
	(0.169)	(0.168)	(0.168)	(0.168)
Belief Effort Pays	-0.029	-0.028	-0.028	-0.027
	(0.019)	(0.019)	(0.019)	(0.019)

Socio-Demographic Individual Controls	Yes	Yes	Yes	Yes
Regional-Level Variables				
Salience Territorial 2nd Dimension		-0.436***	-0.276*	-0.223**
		(0.083)	(0.162)	(0.109)
Strength Regional Identity			0.597	1.328
			(1.470)	(0.899)
Regional GDP			0.008	0.035*
			(0.035)	(0.021)
Strength Regional Identity X Regional GDP			-0.007	-0.014*
			(0.013)	(0.008)
Regional Fiscal Balance				0.039***
				(0.012)
Constant	-0.305	0.298	-0.507	-3.540
	(0.468)	(0.450)	(4.146)	(2.587)
Variance Second Level (Estimate)	**0.788**	**0.111**	**0.128**	**0**
Variance Second Level (Std. Error)	**0.387**	**0.141**	**0.133**	**0**
Observations	**2,202**	**2,202**	**2,202**	**2,202**
Number of groups (Regions)	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 6.3: The Salience of the 2nd Dimension, Partisanship and Red. Preferences

Multilevel Logistic Regressions Preferences for Inter-Regional Redistribution	**Model (6.3.1)**	**Model (6.3.2)**	**Model (6.3.3)**	**Model (6.3.4)**
Individual-Level Variables				
Individual Regional Identity	-0.158***	-0.162***	-0.139**	-0.137**
	(0.060)	(0.059)	(0.061)	(0.060)
Left Partisanship (PSOE)	0.040**	0.040**	-0.005	-0.03
	(0.018)	(0.018)	(0.037)	(0.045)
Right Partisanship (PP)	0.036	0.034	-0.022	-0.050
	(0.023)	(0.023)	(0.037)	(0.045)
Individual-Perceptions About Inequality	Yes	Yes	Yes	Yes
Socio-Demographic Individual Controls	Yes	Yes	Yes	Yes
Regional-Level Variables				
Regionalist Party System	-0.648*		-0.748**	
	(0.377)		(0.362)	

Salience Territorial 2nd Dimension		-0.367***		-0.376***
		(0.079)		(0.067)
Regional GDP	-0.009	0.002	-0.009	0.001
	(0.009)	(0.006)	(0.008)	(0.005)
Regional Fiscal Balance	0.052**	0.036*	0.053**	0.033***
	(0.024)	(0.018)	(0.023)	(0.011)
Cross-Level Partisanship Interactions				
Regionalist Party System X Left Partisanship			0.057	
			(0.042)	
Regionalist Party System X Right Partisanship			0.088**	
			(0.044)	
Salience 2nd Dimension X Left Partisanship				0.019
				(0.011)
Salience 2nd Dimension X Right Partisanship				0.027**
				(0.012)
Constant	0.715	-0.075	0.792	0.082
	(1.028)	(0.688)	(0.986)	(0.625)
Variance second Level (Estimate)	**0.199**	**0.017**	**.172**	**0.001**
Variance second Level (Std. Error)	**0.148**	**0.03**	**.131**	**0.001**
Observations	**2,078**	**2,078**	**2,078**	**2,078**
Number of groups (Regions)	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 6.4: The Salience of the 2nd Dimension, Partisanship and Red. Preferences

Multilevel Logistic Regressions Preferences for Inter-Regional Redistribution	**Model (6.4.1)**	**Model (6.4.2)**	**Model (6.4.3)**	**Model (6.4.4)**
Individual-Level Variables				
Individual Regional Identity	-0.169***	-0.146**	-0.157***	-0.129**
	(0.057)	(0.058)	(0.061)	(0.062)
Left Partisanship (PSOE)	0.016	-0.057	0.041**	-0.027
	(0.017)	(0.043)	(0.018)	(0.045)
Right Partisanship (PP)	0.032	-0.034	0.034	-0.048
	(0.022)	(0.042)	(0.024)	(0.045)
Individual-Perceptions About Inequality	No	No	Yes	Yes
Socio-Demographic Individual Controls	Yes	Yes	Yes	Yes
Regional-Level Variables				
Saliency Territorial 2nd Dimension	-0.218	-0.204*	-0.214*	-0.219*

	(0.139)	(0.107)	(0.113)	(0.113)
Regional GDP	0.020	0.032	0.035	0.029
	(0.032)	(0.020)	(0.022)	(0.022)
Strength Regional Identity	0.732	1.207	1.306	1.033
	(1.313)	(0.864)	(0.914)	(0.925)
Strength Regional Identity X Reg. GDP	-0.008	-0.013*	-0.013*	-0.011
	(0.011)	(0.007)	(0.008)	(0.008)
Regional Fiscal Balance	0.042**	0.036***	0.037***	0.043***
	(0.018)	(0.012)	(0.012)	(0.013)
Cross-Level Partisanship Interactions				
Salience 2nd Dimension X Left Partisanship		0.020*		0.018
		(0.011)		(0.012)
Salience 2nd Dimension X Right Partisanship		0.020*		0.026**
		(0.012)		(0.013)
Constant	0.041	-1.209	-3.487	-2.627
	(3.811)	(2.458)	(2.613)	(2.649)
Observations	**2,163**	**2,163**	**2,078**	**2,078**
Number of groups (Regions)	**17**	**17**	**17**	**17**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Figure 6.7: Regionalist Partisanship and Redistributive Preferences across Cohorts

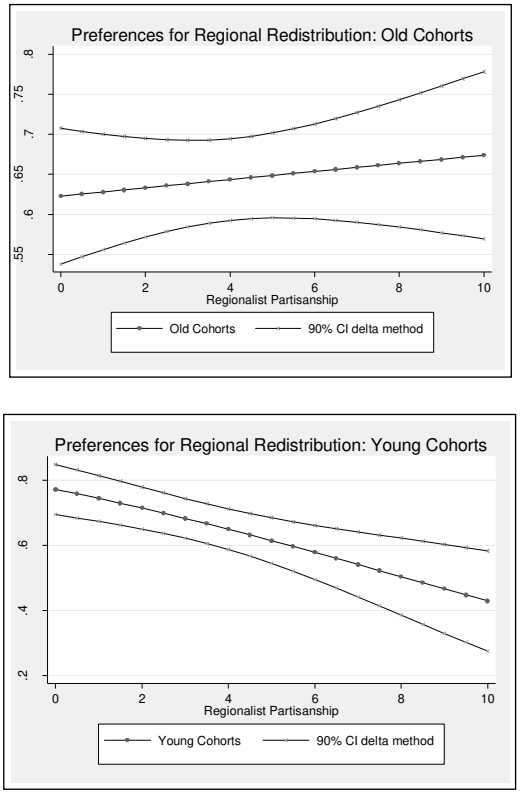


Table 6.5: The Conditioning Effects of the 2nd Dimension in Catalonia

Logistic Regressions for Preferences for Inter-Regional Redistribution	**Model (6.5.1)**	**Model (6.5.2)**	**Model (6.5.3)**	**Model (6.5.4)**	**Model (6.5.5)**
Cohort Analysis					
Individual Regional Identity	-0.242**	-0.164*	-0.263***	-0.180*	-0.378***
	(0.094)	(0.099)	(0.095)	(0.1)	(0.141)
Regionalist Partisanship	-0.060**	-0.087***	-0.150***	-0.199***	-0.199***
	(0.030)	(0.031)	(0.055)	(0.058)	(0.064)
Regionalist Partisanship X Cohort 2			0.031	0.059	0.085
			(0.083)	(0.085)	(0.095)
Regionalist Partisanship X Cohort 3			0.172**	0.199***	0.157*
			(0.069)	(0.071)	(0.085)
Cohort 2	0.006	0.028	-0.065	-0.148	-0.35
	(0.247)	(0.251)	(0.43)	(0.438)	(0.496)
Cohort 3	-0.048	-0.025	-0.715**	-0.786**	-0.546
	(0.227)	(0.231)	(0.352)	(0.357)	(0.446)

Left Partisanship (PSOE)		0.054*		0.065**	0.053
		(0.029)		(0.030)	(0.038)
Right Partisanship (PP)		0.067*		0.070*	0.055
		(0.038)		(0.039)	(0.051)
Left-Right Scale	-0.044	-0.043	-0.047	-0.042	-0.056
	(0.045)	(0.053)	(0.046)	(0.054)	(0.065)
Territorial Scale	-0.010	-0.004	0.012	-0.007	0.034
	(0.039)	(0.040)	(0.039)	(0.040)	(0.050)
Perception Regional Inequality	0.478*	0.429*	0.474*	0.422	0.147
	(0.25)	(0.26)	(0.252)	(0.263)	(0.337)
Perception Individual Inequality	0.713***	0.706***	0.718***	0.719***	0.810**
	(0.268)	(0.273)	(0.273)	(0.278)	(0.319)
Belief Effort Pays	-0.026	-0.023	-0.026	-0.025	0.01
	(0.029)	(0.029)	(0.029)	(0.029)	(0.035)
Individual Socio-Demographics	Yes	Yes	Yes	Yes	Yes
Constant	-0.116	-0.761	0.399	-0.284	-0.644
	(0.747)	(0.821)	(0.782)	(0.848)	(1.604)
Log-Likelihood	**-399.223**	**-388.825**	**-395.459**	**-384.349**	**-271.656**
Observations	**660**	**648**	**660**	**648**	**461**

Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

CHAPTER 7. CONCLUSION

7.1 What I have (and have not) argued

This dissertation has shown that the electoral salience of second-dimensional identity politics can have important negative consequences on redistribution in parliamentary democracies. This argument was already prevalent in the literature (Roemer 1998, Austin Smith and Wallerstein 2006) but mainly in relation to countries with majoritarian electoral systems. Instead, here I have shown that the positive effect of PR is also muted when the territorial identity cleavage constitutes a salient dimension of political competition. From this point of view the dissertation brings "bad news": it illustrates the way in which second-dimensional politics are also pervasive in PR systems. Since multiparty PR systems have been usually regarded as the most redistributive (Iversen and Soskice 2006, Persson et al 2007), the argument here becomes an important qualification to the existing new institutionalism literature.

The logic behind the argument is that the territorial-identity dimension is used as an electoral weapon at the electoral stage, especially in the hands of right and regionalist parties, and it also affects the post-electoral legislative bargaining stage among

parties in parliaments. One hand, the mechanism at the electoral stage takes the form of an *indirect effect* on redistribution. I have argued and shown empirically that the right-wing and regionalist parties are likely to emphasise the territorial dimension, when they are losers on the first dimension, to improve their electoral results. But the mechanism at the legislative stage takes the form of a much more *direct effect*: when coalition bargaining is two-dimensional, the pie can be divided in different forms and this opens up opportunities for new legislative equilibria. Both the direct and the indirect effects, though, are likely to have a negative impact on redistribution when the 2nd dimension is salient. And these two effects therefore contribute to the reduction of the so-called "left-bias" in PR systems.

The argument presented here follows the approach of Lipset and Rokkan (1976) by endogenising the second-dimensional electoral incentives to the existing cleavage structure and regarding the electoral systems as contextual constraints or conditioning variables. From this perspective, the approach is similar to recent works that have emphasised the effects of the religiosity dimension on welfare states (Kersbergen and Manow, 2009). However, I would like to stress that the approach in this dissertation should not be considered a primordialist explanation, since I have put all the emphasis on the role of "political entrepreneurs" (Rabushka and Shepsle, 1972). In other words, the main focus of attention has been parties' strategies and their redistributive implications. Or more specifically, the ability of parties to strategically manipulate the dimensionality of the political space and the way in which this affects fiscal choices through coalition bargaining in multiparty PR systems.

7.2 The Main Findings, Contributions and "Bad News"

First, I have illustrated the details of the argument with a two-dimensional formal model that incorporates both an electoral stage and a legislative stage. The integration of both stages has been one of the key objectives of the dissertation, following the advice of

Austin-Smith and Banks (1988). The first part of the model illustrates how, depending on the political geography of voters, right and regionalist parties can have electoral incentives to increase the salience of the territorial identity cleavage. By doing that, they are able to split the existing electoral base of the poor majority group, who are assumed to be distributed between unified districts and regionally identified districts. In that sense, I have combined the possibility of heresthetical manoeuvres in the hands of political parties with the importance of the geographical distribution of voters. This, I have argued, enables the right and the regionalist parties to mobilise voters along the lines of the territorial-identity dimension. Therefore, those parties should be manipulating the dimensionality of the political space after an electoral loss –which is the main empirical implication that I have tested.

The second part of the theoretical model has focused on the multiple equilibria that emerge in the post-electoral coalition bargaining game in national parliaments. This is the *direct* way through which 2nd dimensional political incentives affect fiscal choices. I have discussed the various legislative coalitions that can emerge in detail, depending on parties' legislative preferences, the pre-existing tax rates in the *status quo* and the income fundamentals. Most importantly, I have shown that non-redistributive coalitions can emerge when the right party is able to form a legislative coalition with the regionalist party. This can even happen when the regionalist party comes from a poor region as along as the pre-existing tax rates are high enough in the *status quo*. This is one of the most crucial arguments of the dissertation: two-dimensional bargaining opens up opportunities for new coalitions for the right party that are not feasible when bargaining is one-dimensional. But also, I have shown how a redistributive coalition between the left and the regionalist party implements lower redistribution in equilibrium than that preferred by the left party. A common feature across the equilibria is that both the left and the right parties need to make a "side-payment" in the form of

greater regionalisation of public policy to sustain their legislative majorities in parliaments.

The second part of the dissertation has been predominantly devoted to analysing the empirical implications of the theoretical argument. I have presented the empirical results at different levels following a top-down approach. First, I have analysed the macro-level by exploring the way in which the legislative salience of the territorial dimension in national parliaments affects fiscal choices. As discussed, the existence of multiple equilibria regarding legislative coalitions in parliaments has been a significant challenge. The hurdle was how to measure the observable implications in relation to the coalition bargaining process and the legislative equilibria predicted by the formal model. This is especially the case as simply using the different types of coalition governments as predictors was not a good strategy since oftentimes minority governments also rely on the legislative support of outside cabinet parties. In order to circumvent both challenges I have created a new measure of the parliamentary salience of each dimension that takes into account both parties' preferences and bargaining power in national parliaments. This measure was calculated by computing the power index of each party in every legislature, using the *Shapley-Shubik* Value, the *Banzhaf* Index and the MIWs values. Next, employing these voting power indices as weights for parties' preferences, I obtained measures for the aggregate parliamentary salience of each dimension.

Importantly, by using such legislative salience measures I have not simply looked at cabinet parties but also outside cabinet parties. That is, I have considered all parties with political representation in parliaments. To test the main empirical implication of the model –namely, that the territorial dimension opens up new opportunities for legislative coalitions– I have employed dynamic legislature based models in 18 parliamentary democracies. Most importantly, I have shown that the legislative salience of the 2nd dimension is associated with an increase in regionalisation of public policy and a decline in the provision of

public social spending at the national level. These results are coherent with the legislative equilibria discussed in the theoretical model. But also, I have provided evidence in favour of the most provocative finding of this dissertation: the positive effect of proportionality is muted when the legislative salience of the territorial-identity dimension is high. Not only that, most strikingly, the effect of PR switches and becomes negative when the territorial dimension is highly salient.

One important caveat needs to be mentioned here. The empirical evidence at the macro level refers to the negative effects of the legislative salience of the territorial-identity dimension on overall public social spending. Specifically, I have employed the SOCX dataset from the OECD statistics in which public social spending variable mainly refers to universal spending programmes. Therefore, although Lupu and Pontusson (2011) have argued that this measure highly correlates with data on redistribution from the LIS high quality dataset; it is important to remember that the public social spending variable only crudely proxies for redistribution. And also, it is important to highlight that the SOCX variable mainly refers to nationalised forms of public social spending. As such, the "bad news" refer to the extent of nationalisation of social spending in a given country. Thus, the proper way to read the results of this dissertation is the following: the salience of the territorial identity cleavage imposes limits on the size and scope of nationalised redistributive efforts at the country-wide level.

Afterwards, I have explored 'one level down' by focusing attention on the strategies of political parties. Specifically, I have explored in a direct way the proposed `heresthetics mechanism´ regarding the electoral stage. This chapter provides one of the first tests for heresthetical manoeuvres in a comparative setting. The contribution here is divided in two parts. First, I illustrate that the electoral salience of the territorial dimension is particularly high in parliamentary democracies with PR systems and high levels of ethno-cultural group diversity. It was important to corroborate this result since it was one of the driving intuitions of the dissertation.

Also, I provide evidence according to which the right-wing parties, Conservative and Liberals, attach greater weight to the territorial dimension than those on the left.

The plausibility of the electoral heresthetics mechanism has been tested with party-elections dynamic fixed-effects models and it is very robust. Even when taking into account the electoral preferences of the electorate, to control for a simple responsive mechanism; it is the case that right and regionalist parties increase the electoral salience of the territorial dimension after an electoral loss when they are "losers" on the first dimension. Being "losers" meaning that they are distant from the average voter on the first dimension. To further approximate the empirical implications of the theoretical model, I have also tested if there are differences in the extent to which right-wing parties strategically prime the territorial-identity dimension depending on the levels of ethno-cultural diversity. The results are also conclusive in that respect; the hereshtetics mechanism for right parties holds only when the levels of diversity are high. In that sense the evidence in this chapter is in line with the argument since parties' electoral incentives are dependent on the existing social cleavage structure.

Finally, I have explored the effects of the salience of the territorial dimension on individuals' redistributive preferences. This chapter, based on high quality survey data from Spain, has investigated the complex relationship between individual partisanship, two-dimensional party competition and preferences for inter-regional redistribution. Specifically, it has uncovered the way in which the salience of the territorial dimension can affect the formation of preferences by exploiting cross-regional variation within Spain, and it therefore provides a very interesting case study since it is a country in which the territorial identity cleavage plays obviously a very crucial role and, moreover, the political antagonism among parties has increased dramatically over recent years.

Interestingly, in Spain both right and left-wing partisanship are associated with greater preferences for nation-wide solidarity when the territorial dimension is salient. This finding suggests that

a greater salience of the territorial-identity dimension is a key determinant of the endogenous process of preferences' formation. Although somewhat counter-intuitive, this finding is coherent with the theoretical model: when the territorial dimension is highly salient, both the right and the left parties have electoral incentives to play the "heresthetics card" at the electoral stage. Note that in Spain both the left and right nationwide parties (PP and PSOE) have extensively used the rhetoric of nation-wide solidarity.

7.3 The Road Ahead

This dissertation, I believe, offers a variety of interesting findings all related to the redistributive consequences of the political activation of the regional identity cleavage. The arguments and results discussed also open up avenues for future research since many interesting questions remain unanswered. I will not be exhaustive but I want to highlight the most concerning and challenging tasks on the road ahead. First, there is the possibility that parties are likely to face a trade-off in relation to their strategies at the electoral stage and the legislative stage afterwards. This is a well-known trade-off in the literature related to political parties' 'commitment problem' to their electoral promises once they are in parliament (Austin-Smith and Banks 1988, Schofield and Sened, 2006, Iversen and Soskice 2006, Kedar 2009).

However, what the theoretical model in this dissertation suggests is that the existence of a salient territorial-identity dimension adds a further complication to the commitment problem. On the one hand, I have shown that right-wing parties are likely to have incentives to increase the dimensionality of the political space at the electoral stage as an instrument to mobilise new voters. However, the theoretical model also shows that once in parliament a greater salience of the territorial dimension narrows down the range of possible legislative equilibria in which the right party can participate. There are many issues that remain to be explored in relation to this problem. However the most

interesting avenue for future research are the "feedback loops" between the priming of the 2nd dimension at the electoral stage and the priming at the legislative stage. Is this a dynamic process with self-reinforcing characteristics or does it stop at some point? In other words, how does legislative bargaining affect electoral priming at t+1?

The answers to those questions must be related to two different but equally important aspects: (i) the nature of the second dimension of party competition, especially in relation to voters' elasticity and reactions; and (ii) the economic fundamentals, especially in relation to the dimensions of inequality. Regarding the former, I have implicitly assumed throughout the dissertation that voters have no memory. But a better understanding of voter reactions to electoral heresthetical manoeuvres over time is needed. One of the most promising future research paths, I believe, is that considering the implications of electoral manoeuvres and political polarisation on convex identity-based second dimensions. Convexity meaning risk acceptance, in the sense of preferences being "intensely held," as developed in Rabushka and Shepsle (1972). If it is the case that second dimensions have convex properties, the redistributive consequences of multidimensional political competition are likely to be amplified.

In fact, recent work by Kamada and Kojima (2013) already suggest that when the second dimension is "sufficiently convex" among individual voters, parties' electoral platforms will converge on the first dimension, which is assumed to be concave, but will be polarised on the convex second dimension. If the first dimension mainly refers to the left-right dimension, which is economic in nature, concavity in the sense of risk aversion seems a reasonable assumption. But convexity of the second dimensions might well explain the phenomena of increased political polarisation when group-identities are salient. And, as I have argued in the dissertation, the consequences should be important in majoritarian systems where parties have incentives to "issue-

bundle"; but also in PR systems where parties also have electoral incentives to mobilise votes along the lines of second dimensions.

On the other hand, I have mentioned the importance of the economic fundamentals. One important finding of the dissertation is the positive relationship between inequality and the electoral salience of the territorial-identity dimension that I have documented. The finding is very robust in my models and it is coherent with recent work by Potter and Tavits (2013). Nonetheless, it implies that parties attach a greater salience to the territorial-identity dimension when inequality increases; which at first reading is a completely counter-intuitive result, at least according to the traditional Meltzer and Richard approach (1981). However, the result might well be indicating that political parties that are likely to become "losers" when inequality increases will emphasise the second dimension as an optimal electoral reaction. But this raises important research questions for the future: is, then, economic inequality a pre-requisite for hereshtetical manoeuvres on 2nd dimensions? To what extent are economic inequalities and its various dimensions the main source of dimensionality of the political space?

This brings me to make a last remark in relation to inequality regarding the recent work by Baldwin and Huber (2010) and Huber et al (2012) on between-groups inequality. The recent contributions by Huber et al are closely related to the argument discussed in this dissertation. Although I have included in my models controls for inter-regional inequality, which is arguably a proxy for between regional-identity groups' income differences; it is very much true that I have not focused my attention on the role of horizontal inequalities. But interestingly, Huber et al have also suggested that electoral democracy is likely to activate group-based politics when ethno cultural diversity is high. Therefore, one of the main tasks for the future is to disentangle how the balance between inter-personal inequality (vertical) and between groups inequality (horizontal) affects the electoral incentives of political parties when politics are multidimensional. As well as,

related to my previous points, the likely "feedback loops" between such electoral incentives and the various dimensions of inequality.

7.4 Policy Implications: The Argument at the EU Level

I conclude by briefly referring to some policy implications of this dissertation's theoretical argument and empirical evidence. I begin, however, with a note of caution and by emphasising that we still know very little about the way in which territorial diversity affects redistribution. Therefore, the ability to make any form of sound policy recommendations is very limited and simply speculative. Hopefully, future research will be able to provide us better guidelines. In any case, the argument of the dissertation, according to which territorial diversity can have profound negative redistributive implications through multidimensional party competition, inevitably resonates into the current debates on European political integration and its feasibility.

Unfortunately, the empirical evidence presented in this dissertation imposes a sceptical view in relation to the future prospects of economic integration and, especially, with respect to the feasibility of a European political union with significant levels of redistribution. Many have regarded the European Union as an institutional device that should promote insurance mechanisms and a better overall welfare position for all EU citizens. The arguments usually underscore the ability of a greater political union to provide insurance against shocks, economies of scale in the provision of public goods and the gains from a larger market for goods and services. This is all good, except that this view neglects the identity dimension and the plea for realism that it introduces; especially when one takes into account the ability of political entrepreneurs to mobilise voters along identity based second dimensions when territorial diversity is high.

In fact, one can apply the same logic of the argument discussed in previous chapters to a hypothetical fiscally integrated European political union. In this case, making the analogy by simply moving one step up, what I have analysed as a regional

identity cleavage might easily transform into national identity cleavages. It will be recalled that I started by putting forward the question of a trade-off between inter-personal redistribution and regionalisation of public policy that becomes relevant when territorial cleavages are pronounced. Similarly, then, one could think of a trade-off between national and EU-based policies. But then, what would be the prospects of a welfare state at the EU level? It is even realistic to think about such possibility? Alesina and Glaeser (2004) have already responded that the prospects for greater redistribution are lower when diversity is high. Beramendi (2007, 2012) has argued that the territorial fragmentation of inequality can have profound redistributive implications in political unions depending on the nature of political representation. But almost nobody has mentioned the exacerbation of identity-based horizontal political conflicts that fiscal integration may generate –except some notable exceptions such as Sambanis (2012).

Once we take into account the electoral incentives of political entrepreneurs seriously and the more than likely emergence of exacerbated national identity cleavages the prospects for a reasonable EU welfare state decline enormously. According to the empirical evidence regarding the electoral stage of the argument discussed before, we should possibly expect the right wing parties to make electoral manoeuvres based on the national-identity cleavage when they would become "losers" on the first dimension. Even more so when both the levels of between-country inequality and the levels of ethno-cultural diversity are especially high at the EU level. In fact, it is possible to argue that such an heresthetics electoral game in relation to the EU *vis-à-vis* national interests has already started. Recent electoral campaigns in the UK and Germany have illustrated the way in which the politicisation of the European question can be used as an electoral weapon. And, above all, the last European elections in 2014 pointed very clearly to the rise of horizontal territorial-based political conflicts.

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