The Politics of Investment: How Policy Structure Shapes Political Priorities
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The Politics of Investment: How Policy Structure Shapes Political Priorities

PhD Dissertation
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English summary

Dansk resumé
While no exact formula exists, pursuing a PhD typically involves liters of coffee, a lot of writing and rewriting, phases of pure excitement, tons of frustrations, and more rewriting. Most importantly, however, is the help and encouragement one receives from other persons throughout the process. Far from being an exception to this rule, my project has benefited enormously from many kind and helpful people along the way.

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Jonas Kraft
Copenhagen, August 2017
This report is part of my PhD dissertation *The Politics of Investment: How Policy Structure Shapes Political Priorities* conducted at the Department of Political Science, Aarhus University. The dissertation consists of this report as well as three single-authored papers. The summary report presents an overview of the project, develops an integrated theoretical framework for the study of investment politics, and takes up new discussions that go beyond the scope of the individual papers. In each of the three papers, more details can be found with regard to theory, methods, data, and empirical results.

Aside from this summary report, the following papers are included in the project:


Government investments in education, research, and infrastructure tend to be favorites among policy experts. Even in times where fiscal austerity and balanced budgets constitute the standard recommendation to national governments, the Organisation for Economic Co-operation and Development (OECD), the European Commission and other expert organizations continue to call for more spending on these public programs that foster new skills, more innovation, and better transportation facilities (for recent examples, see OECD 2015; IMF 2014; European Commission 2016). This popularity stems directly from the so-called growth component of investments that makes these initiatives stand out from most other policy domains. While government spending is often described as a hindrance to economic efficiency (Okun 1975; Bergh and Henrekson 2011; Fall and Fournier 2015), educational initiatives, public research subsidies, and infrastructure projects are generally highlighted as ‘productive’ policies that generate a net contribution to the total economy (Schultz 1961; Becker 1962; Barro 1990; OECD 1996, 2003, 2013; Fournier 2016; Fournier and Johansson 2016; Gemmell, Kneller, and Sanz 2016; European Commission 2016: 70).

The ability to ‘push economies onto a higher growth path’ (OECD 2015: 207) is not the only unique feature of these policies, however. Public investments can also put politicians in a terrible dilemma. This has to do with their distinct temporal structure (Jacobs 2011, 2016). More precisely, the substantial growth benefits of investments only show up after many years, even though the programs require funding right away. Politicians therefore have to impose immediate costs on voters and accept short-term electoral pain before they can reap and claim credit for the many long-term gains of their investment efforts.

How do these unique policy characteristics affect political dynamics? Should we expect that parties and governments follow expert recommendations and prioritize these sustainable ‘win-win’ solutions that address the challenges of tomorrow? Or is politics so biased against the future that such a scenario is impossible in a world of harsh realpolitik? In a nutshell, these are questions that this dissertation tries to answer. More specifically, it asks: How does policy structure affect the politics of public investment?

In doing so, the dissertation addresses a long-standing omission in the existing literature on investment politics. Surprisingly, most analyses of political dynamics in these policy areas tend to ignore the characteristics that
make investments distinctive and instead focus on a policy trait that public investments share with most other public programs: They concentrate on the fact that these policies are tax-financed and increase the size of the government in the total economy. This specific focus is not a coincidence but follows directly from the theoretical framework that underpins these analyses, namely partisan theory (e.g. Castles 1982; Boix 1998; Iversen and Stephens 2008; Ansell 2010; Gingrich and Ansell 2015; Garritzmann 2016). In its traditional form, this approach predicts that political dynamics in nearly all policy areas boil down to the same underlying class conflict over the role of government in the markets. From a partisan perspective, public investments are therefore not distinct in political terms. They are just one of many public programs that affect the overall state-market balance in a crosscutting ideological struggle between the Left and the Right.

As an alternative to the partisan account, this dissertation develops a novel theoretical framework that allows for the influence of policy-specific factors and for potential variation in political dynamics across different policy domains. The framework builds on supply-side models of the political process whose starting point is the strategic agency of political parties rather than socio-structural divides in society (Baumgartner and Jones 2009; Carmines and Stimson 1989; Riker 1986; Schattschneider 1960). Analytically, such an elite-based approach to politics involves a focus on parties’ strategic incentives to politicize specific policy areas as they compete with each other (Robertson 1976; Budge and Farlie 1983; Carmines 1991; Carmines and Stimson 1993; Green-Pedersen 2007) and on the political strategies parties implement to avoid blame for unpopular decisions as government actors (Weaver 1986; Pal and Weaver 2003; Vis 2016). Moreover, the framework accepts that policies often have unique features that foster unique kinds of politics (Schattschneider 1935; Lowi 1972, 1964; Wilson 1974; Smith 1982; Hayes 2007; Grossmann 2013). All in all, it therefore offers the opportunity to move beyond partisan scholars’ state-market perspective and attend to the unique aspects of public investments.

Building on this supply-side framework, the dissertation develops a set of theoretical propositions that link political priorities to the characteristics that make investments stand out from other policy domains and to the specific policy features that separate different types of investments from each other. This theoretical exercise is carried out in this summary report as well as in three individual papers. The first two papers analyze how parties compete on public investments and are based on quantitative analyses of party manifesto data from the Comparative Manifestos Project (CMP) and the Comparative Agendas Project (CAP). Together, they document that the temporal structure of investments and their growth component influence why
some parties prioritize these policies more than other parties (cross-party variation) and why some public investments generally receive much more attention in party systems than other types of investment programs (cross-investment variation). These studies are followed up by a paper analyzing the investment priorities of governments. Through statistical analyses of expenditure data, it shows that the distinct policy structure of investments also affects governments’ risks of blame attribution and their related spending decisions.

The core message of the PhD dissertation is thus that the temporal configuration of public investments and their substantial positive effects on economic growth turn politics in these policy areas into more than just a state-market conflict. Rather than simply reflecting political dynamics on more traditional redistributive programs, investment politics follows a unique logic that has its roots in a particular policy structure. In general terms, this underscores two central theoretical contributions of the dissertation. First, the findings illustrate that scholars of comparative political economy should be careful to apply partisan theory as a one-size-fits-all model. Surely, politics in some domains might best be described as a class conflict over public involvement in the markets. However, in other areas like investments, policy-specific factors are more decisive for political dynamics. So far, the comparative political economy (CPE) literature has paid surprisingly little attention to such cross-policy variation in politics. The dissertation breaks with this tendency and offers a theoretical framework that directly accounts for this type of differences.

Second, the developed supply-side theory helps to nuance the current understanding of parties’ role in the political processes related to investments and other socio-economic policies. Scholars in the CPE literature tend to assume that parties operate as loyal representatives of specific social groups and primarily supply policy in accordance with ideological objectives. This assumption constitutes the foundation of traditional partisan theory, but also remains present in newer and otherwise promising realignment versions of the partisan argument (e.g. Beramendi et al. 2015; Gingrich and Häusermann 2015). The dissertation and its empirical analyses demonstrate that such a conceptualization of party behavior is insufficient. At least when studying the politics of investment, we observe that parties actively use their agenda-setting powers to shape the content of politics and policy outputs in ways that first and foremost fulfill their own ambitions for more votes and office participation. By adding a supply-side perspective to the CPE literature, the dissertation offers new insights into what motivates parties, how parties compete with each other, and what they do as government members.
Last but not least, the dissertation makes two empirical contributions. At present, the literature on public investments suffers from a persistent ‘education bias’. Over the last two decades, a wave of empirical contributions related to educational investments have seen the light of day (e.g. Boix 1998; Busemeyer 2009, 2007; Busemeyer and Trampusch 2012; Iversen and Stephens 2008; Ansell 2010; Garritzmann 2016; Busemeyer et al. 2017). However, the number of studies investigating public investments in physical and innovational capital remains surprisingly low. Likewise, and as recently pointed out by Busemeyer, Franzmann, and Garritzmann (2013: 521), analyses of party competition on investment policies are almost ‘completely missing’ in the literature. Through extensive empirical investigations of party politics and government behavior related to public investments in human, innovational, and physical capital, the dissertation accommodates these gaps and therefore also contributes with new empirical knowledge.

The remainder of the summary report is organized as follows: Chapter 2 discusses how to best define public investments, which remains a debated topic in the literature, and describes the policy structure of these programs in greater detail. Chapter 3 reviews existing partisan accounts of investment politics. It presents the traditional partisan argument as well as the new realignment version and puts these theoretical claims to an empirical test. Chapter 4 describes the overall theoretical framework of the dissertation. Building on a new supply-side theory of investment politics, the chapter presents a set of concrete theoretical propositions that link the policy structure of investments to party politics and government behavior. Chapter 5 gives a brief overview of data sources, research design, and statistical techniques. Chapter 6 presents the key findings of the papers, and Chapter 7 discusses their implications and concludes with a set of suggestions for future research.
A first step in the study of investment politics naturally has to be a discussion of how to best define the central phenomenon under investigation: public investment. The existing literature has ascribed a variety of meanings to this notion. In fact, today, the term can refer to everything from unemployment assistance over family benefits to climate change policy. This lack of consensus on definition and scope is unfortunate, not least because it means that scholars often debate different things under the same heading. The purpose of this chapter is to develop an investment definition that mitigates concerns about conceptual stretching (Satori 1970) and explicitly delimits the scope of the analyses carried out later. Two central claims are made: Investments are best defined on the basis of their ability to stimulate the creation of new capital, and this capital-inducing effect is central for understanding the unique policy structure of these programs.

The first part of the chapter scrutinizes the various definitions used in the literature and describes how public investments are defined in this dissertation. On the basis of the chosen definition, the second part details the central policy characteristics, that is, how the policy structure of investments differs from other public policies, and how different types of investments have their own unique policy traits.

2.1 Definitions and the investment concept

2.1.1 Public investment definitions in existing literature

In general, it is possible to detect at least four different definitions of public investments in the literature: an economic, a supply-side, a social, or a temporal definition (see Table 2.1). Some studies simply borrow the investment term applied in economics (e.g. De Haan, Sturm, and Sikken 1996; Keman 2010; Breunig and Busemeyer 2012). In economic theory, investments constitute a central category in national accounting systems capturing ‘the flow of spending that adds to the physical stock of capital’ (Dornbusch, Fischer, and Startz 2008: 344). Economists refer to the public element of this category as government gross fixed capital formation (GGFCF),\(^1\) which covers a ra-

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\(^1\) More precisely, the definition of public investments in national accounts can be derived in the following way: Based on the double-entry bookkeeping principle, all income earned from production in national accounts must be ascribed either to fi-
ther heterogeneous group of public expenditure items. Most notably, GGFCF includes public infrastructure expenses, but also spending on public buildings such as hospitals and police stations as well as government office machinery. The unifying element is that all these public expenditures relate to the creation and maintenance of physical capital goods, i.e. goods that are intended for use in the future production of other goods. In economics, this stands in contrast to spending on consumption goods, which are consumed for their own sake to satisfy immediate needs (Carlin and Soskice 2006). The central feature that makes investments unique is thus the ability to create capital that increases the future productive capacity of society.

Table 2.1 The four investment definitions and their related programs

<table>
<thead>
<tr>
<th>Economic definition</th>
<th>Supply-side definition</th>
<th>Social definition</th>
<th>Temporal definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>The GGFCF category which includes:</td>
<td>The GGFCF category</td>
<td>Educational programs</td>
<td>Accumulative investments, e.g. taxation of natural resources</td>
</tr>
<tr>
<td>• Public infrastructure</td>
<td>Educational programs</td>
<td>Active labor market policies</td>
<td>Capital-inducing investments, e.g. educational programs</td>
</tr>
<tr>
<td>• Public buildings</td>
<td>Active labor market policies</td>
<td>Family programs</td>
<td>Slow-moving consumption investments, e.g. preemptive health care or crime-related programs</td>
</tr>
<tr>
<td>• Government office machinery and other publically owned assets</td>
<td>Income taxation</td>
<td>Sometimes also:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Privatizations and other regulatory schemes</td>
<td>• Unemployment benefits</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Social assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Health care programs</td>
<td></td>
</tr>
</tbody>
</table>

Using this definition for analyses of investment politics has several advantages. First, it ensures that we stay true to the economic – and probably also most well-known – meaning of the investment term. We simply get to rely on a more established terminology and thereby lower the risk of conceptual stretching to a minimum. The economic definition also has some drawbacks, however. The GGFCF category is very heterogeneous and dispersed somewhat arbitrarily across many different policy areas, and it excludes public spending that stimulates other types of capital, not least human and inno-

onal consumption or new investments into the production apparatus (under the assumption that we operate in a closed economy). The latter is also called gross fixed capital formation. If we further split this category by institutional sector, we get a corporate subcategory and a public subcategory called government gross fixed capital formation (GGFCF) (United Nations 2003, 4). This is the economic definition of public investments.
vational capital (see definitions below). In fact, this latter point is also increasingly acknowledged by economists. For instance, the revised system of National Accounts from 2008 openly discusses the need to change the GGFCF category in a way that solves this problem (United Nations 2009; European Commission 2016: 68).

A second investment definition originates from studies of economic supply-side policies. In his seminal book on this topic, Carles Boix defines public investments as supply-side ‘policies that shape the provision of production factors or inputs and that, in doing so, help to determine the long-run natural rate of output of the economy’ (Boix 1998: 10-11). This alternative conceptualization encompasses spending on GGFCF as well as public expenditures related to human capital formation. However, with a general focus on supply-side programs, Boix goes even further and includes analyses of personal income taxation and other regulatory schemes. This highlights that Boix’ investment concept not only covers capital-inducing policies but also programs directed towards the other input factor in standard growth models, labor supply. As such, a supply-side definition allows for the inclusion of several capital types but perhaps goes too far by diverging from the close investment-capital nexus that is present in national accounting and traditional economics.

The notion of investment is also slowly gaining popularity in the welfare state literature. Similar to the definitions above, studies in this field focus on the productive capacity of investments. However, they conceptualize the term in the context of the welfare state and thereby introduce a third definition. Welfare state scholars talk about ‘social investments’ (Giddens 1998; Esping-Andersen 2002; Morel, Palier, and Palme 2012; Gingrich and Ansell 2015; Hemerijck 2017), which are generally viewed as a positive-sum type of social policy. In contrast to traditional redistributive transfers that ‘decommodify’ and compensate income losses, these programs are defined by their ability to ‘recommodify’ and facilitate human capital formation. As Morel, Palier, and Palme (2012: 1) put it, social investments aim at ‘preparing’ citizens for the labor market rather than ‘repairing.’ The general idea is that programs such as childcare services, education, and active labor market policies reduce poverty and income inequality without hampering economic ac-

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2 In contrast to capital, labor is variable in the short run. Thus, policies that boost labor supply, e.g. a tax reform that increases job incentives, will typically generate effects that show up faster than effects of policies directed towards capital creation. As argued below, such differences are likely to generate different kinds of politics and therefore it is unfortunate to juxtapose the two policy types.

3 Boix does not consider investments in innovational capital, however, even though this policy area fits with his definition.
tivity like many other social policies have a reputation of doing. As already mentioned, the capacity-enhancing nature of these policies should actually affect economic growth positively. Social investments are therefore often described as ‘win-win’ policies that overcome the trade-off between efficiency and equity (Esping-Andersen 2000; Gingrich and Ansell 2015).

Even though a large amount of research has been conducted on social investments already, the literature still heavily debates how to clearly define their core concept. Some scholars conceptualize social investments strictly as family policies, education, and active labor market policies (e.g. Nikolai 2012; Gingrich and Ansell 2015), while others apply a much broader definition that also includes social assistance legislature, unemployment benefits, and health care policies (e.g. Hemerijck 2017; Kvist 2014). Essentially, this debate boils down to the question of how social social investments really are. Should the notion of investment only be applied to policy areas that clearly have a productive nature and foster economic growth? Or are social investments a general trend – an ideational paradigm – that permeates all public poverty reduction efforts? If the former is the case, it seems strange not to look at other policies that also clearly increase the productive capacity of society, e.g. physical capital investments, and if the latter definition is applied, it becomes relatively hard to pinpoint what exactly makes investments different from other policies of the welfare state. In this way, the social investment literature remains caught in a conceptual gridlock without any obvious solutions.

Finally, Alan Jacobs (2011) provides us with the fourth definition of public investments. In contrast to the other three conceptualizations, the defining principle for Jacobs is the temporal structure of policies. From his perspective, policies are investments when they involve (1) extraction of resources in the short run and (2) dedication of those resources to a mechanism of intertemporal transfer (Jacobs 2011: 17-20). The latter mechanism comes in three forms: (a) ‘accumulation’ where holding back resources today allows for future consumption of these resources in a more efficient way, (b) ‘the creation of capital goods’ where current resources are extracted to create durable inputs into the production of other goods, and (c) ‘the production of slowly moving consumption goods’ where withholding of current resources facilitates the long-term development of consumptive goods.

The advantage of this definition is its focus on the unique temporal structure of investments. However, the resulting conceptualization also becomes immensely broad. Jacobs’ investment concept encompasses everything from taxation of natural resources, climate change policy, pension reforms, over national debt reductions to preemptive health care or crime-related programs (ibid.). This extensive scope stems from the fact that Jacobs is so in-
terested in temporality that he neglects to specify more precisely what the long-run outcome of an investment actually is. This is problematic because the nature of the long-term return naturally affects how willing political actors are to pursue it in the first place. As such, an investment definition has to say something more specific about what actually comes out of investing.

2.1.2 The definition applied: Capital as the guiding principle

Building on the existing definitions, the dissertation confines government investments to public policies that impose immediate, budgetary costs on the government and aim to stimulate the creation of capital in the national economy. With this delimitation, we come close to the investment concept recently applied by Streeck and Mertens (2011) and Beramendi et al. (2015), and it has at least three advantages. First, we stay true to the close link between investments and capital creation that conventional economic theory emphasizes. Investing is therefore understood as the act of spending money on capital creation. This makes it easier to distinguish investments from other policy areas and reduces concerns about conceptual stretching. It also means that we are able to pinpoint more precisely what comes out of investing and what long-term gains political actors can expect from the initiation of public investment programs. Second, and following Jacobs (2011), the definition explicitly points to the unique temporal structure of investments. More specifically, it highlights that capital itself is created from existing resources, and therefore an investment involves short-term pain (in the form of immediate, budgetary costs) before any long-term capital gains can be enjoyed. Finally, the definition is broad enough to allow for the inclusion of investments in other forms of capital besides physical capital. In this way, the scope of the analyses is not constrained by a GGFCF category whose delimitation economists and other users of national accounts statistics increasingly question and debate.

Based on these general considerations, we can identify three specific types of public investment, grouped on the basis of the capital they aim to produce. The first type of public investments facilitates the creation of human capital, which is ‘the stock of skills, education, competencies, and other productivity-enhancing characteristics embedded in labor’ (Acemoglu 2009:

A notable exception is that both contributions include family policies in their investment definition, which I view not as public investments but rather as social policies that address immediate needs and ensure a sufficient female labor supply. Furthermore, Beramendi et al. (2015) for some reason only incorporate higher education policy whereas I include education at all levels like Streeck and Mertens (2011).
85). Human capital investments mainly come in the form of educational programs that prepare citizens before they enter the labor market. These are public initiatives targeted at pre-primary, primary, and secondary schooling as well as vocational training and public higher education programs that facilitate advanced skill formation. As citizens enter the labor market, governments might also aid the maintenance of human capital for persons whose skills are at risk of becoming redundant. This is done through active labor market policies, which are therefore also considered human capital investments.

A second type of public investment is research and development (R&D) policies initiated to spark innovational capital. In contrast to human capital, innovational capital is defined as the knowledge that is used in the national production apparatus and not possessed by workers (Stiroh 2001: 44). Innovation and technological progress are becoming more and more important in the global competition for costumers, and national growth regimes therefore increasingly focus on this type of capital (Ornston 2012; Huo 2015; Hall 2015). Following the Frascati manual (OECD 2002: 30), public investments in innovational capital typically target three forms of activities: (1) basic research that develops new knowledge of more fundamental phenomena and facts; (2) applied research that also creates new knowledge but has a practical use in mind; and (3) experimental development that applies existing knowledge to the production of new materials and devices.

Finally, a third type of public investment stimulates the creation of physical capital. The definition proposed above underscores that only policies with the direct aim of capital creation should be categorized as investments. In practice, this means that physical capital investments pertain to various forms of public infrastructure programs. These initiatives aim directly at increasing the stock of physical capital through construction of new bridges, roads, railways, harbors, or airports. Now, other types of government spending sometimes also lead to physical capital creation, for instance, the building of new police stations or hospitals. However, in these cases, the creation of physical capital is not the primary purpose, but rather a means to reach other goals (here, crime prevention and better health care). Such initiatives are therefore not included as physical capital investments.5

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5 The definition of physical capital investments applied in this dissertation is therefore narrower and less heterogeneous than the GGFCF category used in economics. Besides being closer attached to a specific policy area, this conceptualization also ensures that the scope of physical capital investments does not overlap with other types of investments (for more information on the potential problem of double counting, see Streeck and Mertens 2011 and Paper C).
Before moving on, it is worth noting that the applied delimitation of public investments relies on a qualified assessment of what constitutes the political aim of various policies. This is of course not always straightforward to determine precisely. However, the three groups of policies described above are assessed to be those programs that most clearly fall within the scope of the chosen definition. Other policies did not pass the test even though they are sometimes called investments in the literature. Social policies whose primary aim is to satisfy immediate needs of citizens, e.g. due to unemployment, health problems, or age, are generally not included. Similarly, policies related to the accumulation and production of slowly moving consumption goods (cf. Jacobs’ definition above), for instance climate change policy or public debt reductions, are filtered out because they do not facilitate capital creation. This also pertains to personal income taxation and family benefits (e.g. parental leave schemes) that typically aim at boosting (female) labor supply rather than capital. Finally, the removal of red tape, privatizations, competition regulation changes, and other public programs without any immediate budgetary costs for the government are not considered public investments.

2.2 The policy structure of public investments

2.2.1 Policy characteristics: One ordinary and two unique traits

Having disentangled the scope of public investments, the next step is to understand their policy structure, that is, their expected consequences for society in terms of costs and benefits. While most theories of public policy-making implicitly engage in a scrutiny of policy consequences, the well-established literature on policy typologies explicitly notes that policy shapes politics (Schattschneider 1935; Lowi 1972, 1964; Wilson 1974; Hayes 2007; see also Chapter 4). This insight underscores that an initial investigation of the embedded features of a policy has to be carried out before its politics can fully be determined. Such an investigation is the aim of this section. More precisely, three general policy characteristics of public investments are highlighted: a redistributive component, a growth component, and a temporal component.

Who can expect to benefit and who might lose in a scenario where a government decides to increase spending on a public investment? And when should we expect these costs and benefits to arrive? Let us start with the immediate consequences of a government investment. In the short run, a public investment program involves imposing a tax on voters for reasons of fund-
ing and a corresponding transfer of benefits to actors who participate directly in the capital formation process; for instance, to the teachers and the schools with direct responsibility for skills formation or to the high-tech firms that develop new technology and innovate. This reallocation of resources in the short run illustrates the first characteristic of a public investment, namely that it redistributes money between taxpayers and the receivers of the short-term transfers. In other words, a public investment increases government involvement in the economy and thereby affects the overall state-market balance in society. This characteristic can be referred to as the redistributive component of investments and constitutes the focal point of most existing accounts of investment politics (see Chapter 3). The redistributive component is not by any standards a unique policy trait. In fact, all publicly funded policies entail that the government transfers tax-financed benefits to a specific group and thereby intensifies state involvement in the economy.

If this was the only aspect of investments, the policy structure of these programs would look very much like many other government initiatives. However, the investment scenario does stand out in other ways. Over time, the public investment program starts to bear fruit and leads to the creation of new capital goods in society. Now, as already touched upon, capital goods are productive, which means that they serve as inputs in the production of other goods, and they are fixed in the short and medium run (Carlin and Soskice 2006). These two features of capital affect the policy structure of investments directly: The former trait provides public investments with a growth component; the latter gives public investments a unique temporal structure.

First, the growth component of investments refers to the fact that the capital creation makes investments net-beneficial over time. Once capital goods start to emerge, the total productive capacity of society goes up. This leads to large, positive externalities that benefit most people, for instance higher productivity, economic growth, more jobs, and better government finances (Schultz 1961; Becker 1962; Barro 1990; OECD 1996, 2003, 2013; Keeley 2007; Fournier 2016; Fournier and Johansson 2016). Public invest-

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6 Of course, in practice, a new public investment program can be financed in other ways, most notably through public indebtedness or by cutting other programs. However, to keep it simple, I follow the general assumption in the welfare state literature that governments generally finance new initiatives by increasing taxes. In this context, it is important to note that such an assumption is mostly relevant for the state-market argument in the existing literature and not for the argument of this dissertation, which focuses on the two other unique traits of investments, the temporal and the growth component (see below).
ments are therefore positive-sum policies that not only affect the distribution of the ‘economic pie’, but also expand it. Second, government investments have a temporal component. Because the capital process is slow-moving and fixed in the short and medium run, most investment returns only show up in the long run. This makes the cost-benefit distribution of investments temporarily skewed: while funding has to be paid up front, most benefits emerge in the long run. All in all, the capital creation therefore provides investments with two unique characteristics: a growth component and a temporal component.

2.2.2 Cross-investment variation in policy structure

The final step in the description of the policy structure of investments concerns cross-investment variation. As it turns out, the temporal structure and the growth component are not completely similar across all investment programs, but come in different versions. To realize this, we have to recall that public investments stimulate various forms of capital goods, namely human capital, innovational capital, or physical capital. These different types of capital are not created in the same way by the same actors and institutions, and the positive externalities that they generate in the long run vary in terms of geographical dispersion and concreteness. This means that the exact temporal configuration of investments and the precise nature of their growth effects depend on the specific type of capital the investment stimulates. This section describes how the temporal component and the growth component vary across human capital investments, innovational capital investments, and physical capital investments.

First and foremost, public investments have different temporal structures because of variation in short-term consumption appeal. As noted above, all government investments transfer a set of immediate benefits to specific groups involved in the capital formation process. However, the degree to which these short-term beneficiaries have political relevance varies quite dramatically. Public investments in human capital mainly transfer short-term benefits to the public educational sector and persons affiliated with this sector. In concrete terms, these transfers typically come in the form of wage raises to teachers to attract better staff or initiatives that improve the general quality of the schooling system. Governments might also subsidize tuition fees or increase student grants to give more people an incentive to take an education (Garritzmann 2016). As such, the short-term benefits generated by human capital investments directly affect the everyday lives of teachers, other educational staff, students, and parents who pay tuition fees and want their children to get a good education. Combined, this group of
immediate beneficiaries is not trivial in size. According to OECD (2016a) estimates, around 30% of all households in Western democracies have dependent children under 25 years of age living at home. Add to this a fairly large number of students, teachers, and related staff, and it quickly becomes evident that human capital investments actually deliver a substantial amount of clear-cut benefits to highly politically relevant segments of society in the short run. To use the terminology applied in the papers, public investments in human capital produce very politically appealing consumption benefits in the short run that partly compensate for the late arrival of the capital returns. From a political perspective, the temporal mismatch between costs and benefits is therefore relatively modest for this type of investment.

This is less so for the other two investment types. The process that leads to the creation of innovational capital mainly involves short-term transfers to high-tech firms and a very confined group of researchers at universities and related research units. According to OECD (2016b), scientists, technicians, and affiliated staff in this R&D sector only amount to around 1% of the total population on average in Western democracies. The short-term consumption appeal of innovational capital investments is thus substantially lower, and as a consequence, the temporal dilemma that confronts politicians on this type of investment is much more pronounced. Likewise, the physical capital formation process primarily generates consumption benefits to a smaller group of construction firms building new infrastructure projects and to the workers employed in these firms. Estimates by the OECD (2017) suggest that on average only slightly more than 3% of the total population of OECD countries work in the construction sector. The short-term appeal of physical capital investments is therefore probably a bit higher than that of innovational capital investments, but still substantially lower than the consumption appeal of human capital investments.

Second, the exact nature of the growth component depends on the tangibility of the capital goods. Human capital and innovational capital constitute intangible capital goods, while physical capital is tangible. This cross-policy variation has two consequences for the growth component of investments. First, the tangible nature of physical capital makes the long-term returns of these investments much more geographically concentrated. Innovation and new inventions travel easily across regions and national borders (Comin and Mestieri 2013), and human capital is inextricably connected to workers who have the right to take their skills with them wherever they choose to go. Returns from investments in these two intangible capital types therefore tend

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7 Streeck and Mertens (2011) draw a similar distinction between soft and hard investments.
to be fairly dispersed across the nation. In contrast, the creation of new physical capital, for instance a new bridge, is inevitably tied to the place it is built. The long-term returns that flow from these physical capital investments are therefore more concentrated in a specific region or city. On top of that, capital tangibility increases the visibility and causal certainty of investments’ long-run effects. Think for instance of the rather stark contrast between building a highway (tangible, physical capital) and granting an R&D subsidy that creates better conditions for innovation (intangible, innovational capital). The consequences of the latter are simply harder to grasp and less concrete than the consequences of the former.

2.2.3 Summing up

In sum, public investments can be said to have two unique policy characteristics, a growth and a temporal component, as well as a redistributive component that also characterizes many other public policies. The growth component describes the fact that investment returns are net-beneficial due to the positive externalities flowing from capital expansions, while the temporal component refers to the delay of these growth effects and the related temporal mismatch between short-term costs and long-run gains. Both of these distinct policy traits stem directly from the ability of investments to stimulate new capital.

The chapter also highlighted that the temporal component and the growth component come in different versions, depending on the type of capital the investment stimulates. More precisely and as summarized in Table 2.2 below, the temporal structure of human capital investments is less skewed towards the future because this investment type has strongly appealing consumption benefits in the short run. In contrast, investments in innovational and physical capital produce less appealing consumption benefits and therefore involve a more pronounced temporal mismatch between costs and gains for politicians. Finally, physical capital investments lead to more geographically concentrated and concrete long-run returns, whereas human and innovational capital investments produce intangible capital returns that are less visible and more dispersed across the nation.

<table>
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<th>Table 2.2 Cross-investment variation in policy structure</th>
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<td>Consumption appeal</td>
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Even if the existing literature remains somewhat fragmented, most political science studies of public investments rely on partisan theory and focus on the redistributive component of these policies. This chapter reviews the traditional partisan approach and describes how it has been applied to public investments. Subsequently, it presents an updated version of the original partisan argument. This realignment version, introduced by Beramendi et al. (2015), builds on the same underlying assumptions as traditional partisan theory, but it asserts that investment politics is structured along the social-value dimension of party systems instead of the state-market ditto. Finally, the last part of the chapter puts the two partisan arguments to an empirical test.

3.1 Traditional partisan theory and investments: Just like the rest?

In a nutshell, the central claim of traditional partisan theory is that policy-making is driven by an underlying state-market conflict between left-wing parties representing the poor and right-wing parties catering to the interests of the rich. This theoretical proposition emerged in the 1970s as a challenge to Marxist and functionalist explanations (Häusermann, Picot, and Geering 2013; Van Kersbergen and Becker 2002) and initially developed as two separate strands of literature in the form of a parties-matter approach and power resource theory. The parties-matter literature was initiated by Hibbs (1977), Tufte (1978), and Hewitt (1977), who were among the first scholars to conduct comparative analyses of the relationship between government partisanship and socio-economic outcomes. In their analyses, they documented that left-wing incumbents tend to reduce unemployment, increase government budgets, and lower income inequality in order to help the less affluent. Around the same time, power resource theory was developed by Stephens (1979) and Korpi (1974, 1978, 1983) in the welfare state literature. Similar to the parties-matter studies, these scholars stressed the role of left-wing parties’ political strength\(^8\) and found that it was a central factor behind the gen-

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\(^8\) In contrast to the parties-matter literature, power resource theory does not focus exclusively on the political strength of left-wing parties, but also takes into account the power of other class actors, especially labor unions. Newer versions of the theo-
erosity of welfare states and the degree of redistribution from rich to poor in societies. Over the years, these initial and in many ways groundbreaking contributions have developed into a large body of research showing that parties’ state-market ideology matters greatly for public policy-making, in particular for classic welfare state programs (e.g. Huber, Ragin, and Stephens 1993; Huber and Stephens 2001; Bradley et al. 2003; Korpi and Palme 2003; Allan and Scruggs 2004; Finseraas and Vernby 2011).

Even if most of the literature focuses on social policy, partisan scholars have increasingly applied the framework to public investments (e.g. Castles 1982; Boix 1998; Busemeyer 2009, 2007; Iversen and Stephens 2008; Keman 2010; Ansell 2010; Gingrich and Ansell 2015; Garritzmann 2016). These partisan accounts of investment politics come in slightly different versions, but the general idea is that economically left-leaning parties prefer high public involvement in the national capital formation process because this directly or indirectly redistributes resources to low-income groups. In contrast, market-oriented right-wing parties should want to retrench these public initiatives in order to lower the overall tax burden of affluent voters and avoid distortions of the market equilibrium. In other words, investment politics is expected to be a classic state-market story that resembles political dynamics on regular welfare state policies.

If we delve a little deeper into the logic behind partisan theory, it is possible to highlight at least three assumptions concerning voters, parties, and governments that form the foundations of this state-market story. First, the partisan argument involves the idea that voters wish to maximize their material well-being and develop policy preferences on the basis of their position in the income distribution (e.g. Hibbs 1977; Korpi 1983, 1978; Stephens 1979; Meltzer and Richard 1981; Alt 1985; Boix 1998; Garrett 1998; Iversen and Soskice 2006; Lupu and Pontusson 2011). This implies that the redistributive component of policy constitutes the pivotal piece of information on which citizens base their decisions to either support or reject a policy program. Now, if tax systems are proportional or progressive, publicly financed initiatives typically yield the largest return to those with less income, while high-income groups that are taxed more intensively tend to be net losers of such government involvement in the markets (Meltzer and Richard 1981; Cusack, Iversen, and Rehm 2006). Consequently, the assumption that voters first and foremost are income maximizers leads partisan scholars to the expectation that the poor will favor a state-sponsored investment strategy, while the rich will oppose such tax-financed public capital formation policies.

ry do, however, emphasize that the parliamentary manifestation of labor, that is left-wing parties, is the most important factor (Huber and Stephens 2001: 20).
The second assumption in the state-market story is that political parties are policy-seeking organizations. As Hibbs (1992: 361-2) puts it, partisan theory ‘features the idea that parties have electoral ambitions in order to implement policies favoring their core constituency’. This perspective is inspired by cleavage theory (Lipset and Rokkan 1967) and involves a close alignment between parties and voters anchored in economic class divides. More precisely, the assumption leads partisan scholars to expect that left-wing parties will represent the interests of the working class and right-wing parties the interests of the affluent. The anticipated disagreement over investments between income groups at the voter level should thus translate into a similar conflict between left-wing and right-wing parties in the political arena.

A final assumption in the partisan argument is that once parties get into office, they will be able to deliver the policy output they have promised their core constituencies (Schmidt 1996). In contrast to the view that government participation is mainly an exercise in blame avoidance (Weaver 1986; Pierson 1994, 2001; Green-Pedersen and Mortensen 2010; see also Chapter 4), partisan scholars see office as an opportunity. Having control of the executive branch gives parties the upper hand in the class conflict and makes it possible to influence policy decisions in a way that benefits the social groups they represent. In connection with public investments, governments consisting of pro-state parties should therefore increase public spending on these policies, whereas pro-market governments should retrench public investments.

In sum, traditional partisan theory views the politics of investment as a state-market conflict rooted in redistributive concerns. Left-wing parties should push for more public investments that increase government involvement in the markets and redistribute to the low-income groups, while right-wing parties should want to cut investments in order to relieve the tax burden of high-income groups. This state-market conflict should be reflected both in parties’ competition with each other and in the policy decisions they make in government.

3.2 The realignment argument: The role of the social value dimension

While traditional partisan theory continues to be a popular framework in CPE research, its conceptualization of politics as an economic state-market conflict is increasingly contested in the literature on elections and party politics. The main reason for this growing skepticism is that more and more research show a declining or at least changing effect of class on vote choice and
a general rise in electoral volatility (e.g. Dalton et al. 1984; Franklin, Mackie, and Valen 1992; Clark and Lipset 1991; Hout, Brooks, and Manza 1995; Dalton 2014). One group that actively tries to account for these documented changes in the voter-party linkage is realignment scholars (e.g. Kitschelt 1994; Kriesi et al. 2008; Stubager 2010; Gingrich and Häusermann 2015; Bornschier 2010; Beramendi et al. 2015).

While the underlying assumptions remain similar to those in traditional partisan theory, the realignment argument is based on the notion that decades of socio-economic developments in the form of deindustrialization, globalization, and denationalization have provoked the emergence of a new, second social value dimension. This cleavage crosscuts existing income classes and divides voters into groups adhering to the idea of a universalistic society based on social liberal values and groups with social conservative values that emphasize tradition and order. According to realignment scholars, traditional left-wing and right-wing constituencies have therefore been split up and a new two-dimensional preference space has emerged. The pro-state voters now consist of both sociocultural professionals with social liberal values and blue-collar workers with social conservative values. Similarly, pro-market supporters now consist of business-finance professionals with a social liberal outlook and a social conservative ‘petty bourgeoisie’ (Beramendi et al. 2015).

This two-dimensional preference space among voters means that parties’ representational tasks in politics have changed. Realignment scholars hold that the ideological packages of policy that parties supply to voters no longer simplifies to a one-dimensional choice between more or less public involvement in the markets. Rather, parties’ supply of policy solutions should follow a two-dimensional logic similar to the underlying preference space among voters (Kriesi et al. 2008; Beramendi et al. 2015: 27-9).

How does this realignment between voters and parties affect investment politics? Well, according to Beramendi et al. (2015), the political struggle over investments in a two-dimensional political space is more likely to be structured along the social-value dimension and not the state-market dimension. More precisely, these scholars suggest that parties representing groups with social liberal values (that is, socio-cultural and business-finance professionals) should prioritize public investments, whereas parties representing

9 This dimension has many names, including ‘materialist/post-materialist’, ‘libertarian/authoritarian’, ‘Green-Alternative-Libertarian/Traditional-Authoritarian-Nationalist’ (GAL/TAN), ‘universalistic/particularistic’. I simply refer to it as the social value dimension with a social liberal position at one end and social conservative position at the other end.
social conservative groups (that is, blue collar workers and the ‘petty bourgeoisie’) should favor income-compensating consumption policies at the expense of investments.

The connection between public investments and the social-value dimension mainly builds on the temporal component of these future-oriented policies (for a description of this component, see Chapter 2). Beramendi et al. (2015: 20) suggest that the long run might be a more salient concern for the well-educated occupational groups with social liberal values, because they, in contrast to low-skilled segments, possess the cognitive and material capacities to treasure benefits that only arrive in the distant future. Specifically in regard to educational investments, it might also matter that these high-skilled individuals themselves have enjoyed and experienced the long-term returns from educational programs. Moreover, social liberal values generally encompass a higher acceptance of uncertainty, which might make them more compatible with long-run policies (ibid: 20; Kitschelt 1992: 16). Together, these linking mechanisms suggest that public investments should be a priority for parties taking a social liberal stance, whereas social conservative parties should focus more on traditional welfare policies. In other words, investment politics is not expected to be a state-market struggle, but rather a political conflict structured along the social-value dimension.

3.3 What do the empirics say?

Using the data sources applied in the papers, it is possible to test whether party competition over investments and the investment behavior of governments unfold in accordance with the expectations put forward in the two versions of the partisan argument. Let us begin with an investigation of the party level. Do ideological considerations influence how parties prioritize public investments in their manifestos? Figure 3.1 helps us to answer this question and shows the estimated effects of parties’ ideological positions on their in-

10 As in Papers A and B, the dependent variable in the empirical analyses is parties’ investment priorities (see Chapter 4 for a precise definition of policy priorities) and not their investment positions. The simple reason for this choice is that parties almost never call for less public investments (see Paper A). Analyzing whether parties are for or against investing would therefore be trivial. In this regard, it is worth noting that a focus on priorities rather than positions does not deem ideology irrelevant a priori. It is perfectly possible that ideological considerations also matter for the type of policies that parties prioritize (Mortensen et al. 2011, 975-7; John, Bevan, and Jennings 2014; Green-Pedersen 2017, see also Chapter 4).

11 The construction of these ideological indicators is based on Comparative Manifesto Project data (Volkens et al. 2015) and Hobolt and Bakker (2012). For further
vestment priorities. The most striking thing in the figure is the limited empirical support for the state-market story. This can initially be seen in Plot A, which reports the results from a time-series cross-sectional analysis of Comparative Manifesto Project (CMP) data covering 22 Western democracies over seven decades (see Paper A for more details on data and model specifications). Contrary to the predictions of traditional partisan theory, the estimation illustrated in the plot shows no signs of systematic differences across state-market ideology, that is, pro-state parties do not on average prioritize public investments more than pro-market parties.

Plots B, C, and D show the results of a similar test of the state-market argument using more fine-grained CAP data from seven Western European countries between 1980 and 2013. These CAP data have less coverage, but in contrast to the CMP data, they allow us to investigate whether the effects of ideology vary across different types of investments (see Paper B for more details on data and model specifications). The models for physical and innovational investments (Plots B and C) show the same results as the analysis of CMP data in plot A: We do not observe that pro-state parties systematically prioritize public investments in physical and innovational capital more than pro-market parties. When it comes to parties’ educational investment priorities, estimations with CAP data in plot D indicate that the effect of state-market positions is significant at a 90% level, but in the opposite direction of what we should expect from traditional partisan theory: On average, pro-market parties seem to prioritize this type of investment more than pro-state parties.12

details, see Paper A. The bivariate correlation between the economic positions and social-value positions of parties is 0.22 within countries.

12 I have also tried to split up the CMP investment indicator used in Plot A and re-estimate a model that only uses the education item of the indicator (the results from these additional analyses are available in the appendices of Paper A). In this re-estimation, the effect of state-market positions shows up negative as partisan theory would expect, but again only at a 90% significance level. The CAP and CMP data thus seem to suggest slightly different things, and it is therefore hard to draw any firm conclusions about the exact relationship between parties’ state-market positions and their educational priorities. As in the analyses of CAP data, the effect of state-market positions is insignificant in the models only using the CMP item for investments in innovational and physical capital (in the CMP database, these two investment policies are lumped together into a single item).
What about the alternative partisan argument put forward by Beramendi et al. (2015)? Based on the conducted analyses, there seems to be more empirical support for this theoretical claim at the party level. The estimations in Plot A with CMP data indicate that parties’ positions on the social-value dimension have a negative effect on investment priorities at a 99% significance level. This implies that social liberal parties on average prioritize public investments more than social conservative parties. Furthermore, the estimations with CAP data in Plots B, C, and D indicate that this effect appears to be driven by party priorities related to investments in human and innovational capital. The effect of the social-value dimension on physical capital investments, on the other hand, is insignificant as illustrated in Plot B. All in all, analyses of the party level therefore provide limited empirical evidence for the state-market story, while the alternative partisan argument is supported empirically in the cases of human and innovational capital investments, but not in the case of physical capital investments.

Using the expenditure data from Paper C, it is also possible to test the partisan arguments at the government level. The standard indicator used to
examine the influence of government ideology on public spending in partisan theory is a left cabinet share variable that measures the percentage of cabinet seats held by left-wing parties (e.g. Hibbs 1977; Castles 1982; Iversen and Stephens 2008; Jensen 2011a; Döring and Schwander 2015). As a first empirical test, public investment spending is therefore regressed on this left cabinet share variable using the data and model specifications applied in Paper C. The data on left cabinet shares are taken from Armingeon et al. (2015). Results are shown in Figure 3.2 and illustrate substantial cross-policy variation in the partisan effects. More precisely, we observe that the share of cabinet seats held by left-wing parties has a positive and significant effect on public spending on investments in innovational and physical capital. However, the type of public investment policy investigated most by partisan scholars, educational investments, does not appear to correlate systematically with left-wing incumbency. Figure 3.2 also shows that this result can be reproduced using a government composition index based on party codings by Schmidt (1992; see also Armingeon et al. 2015).

Figure 3.2 The effects of left cabinet share and Schmidt’s government composition index

Notes: For details on data and model specifications, see Paper C. Thin lines illustrate 95% confidence intervals and thick lines 90% confidence intervals. The effect of left cabinet share on innovational capital investments is significant at a 95% level (p = 0.049) even if it is a little hard to observe from the figure.
What can we conclude about the two versions of the partisan argument on the basis of these findings about spending and ideology? Well, in fact, it is hard to conclude anything specifically because the traditional measures of government ideology constrain politics to be one-dimensional (for a related critique, see Döring and Schwander 2015; Häusermann, Picot, and Geering 2013: 226-7). We do not know whether the effects of the left cabinet share variable or the Schmidt index in Figure 3.2 capture governments’ positions on the state-market dimension, the social value dimension, or a combination of both.

Figure 3.3 The effects of governments’ state-market and social-value positions on public spending

![Figure 3.3](image)

Notes: For details on data and model specifications, see Paper C. Thin lines illustrate 95% confidence intervals and thick lines 90% confidence intervals.

In order to overcome this problem, two separate indicators are constructed that capture governments’ state-market and social-value positions, respectively.\textsuperscript{13} Using these alternative positional indicators instead of the traditional measures of government ideology allows for a much more direct test of the

\textsuperscript{13} These measures are constructed with the help of Saki-Williams’ (2014) transformation procedure that generates a weighted average of governing parties’ scores on the CMP-based state-market and social-value indicators applied above and in Paper A. The bivariate correlation between the two indicators is 0.23.
two partisan arguments. More precisely, governments’ state-market positions should correlate with investment spending if the traditional partisan argument is correct, and their social-value positions should correlate with investment expenses if the realignment scholars are right. Figure 3.3 shows the results from the estimations applying these alternative indicators and reveals two interesting results. First, we see that governments’ state-market positions have no significant effect on public spending on investments. This means that governments with pro-state positions do not systematically increase investment expenditures more than pro-market incumbents. Second, the estimations show that governments’ social-value positions have a significant effect on investments in physical and innovational capital, but not on educational investments. In other words, it appears that the significant effects of the traditional left-right indicators illustrated in Figure 3.2 do not reflect state-market positions but rather governments’ positions on the social value dimension.

Taken together, the empirical tests yield the following results. First, the evidence of a state-market conflict over public investments is limited. This is true both when this traditional argument is tested with the use of party manifesto data and spending data. When it comes to the alternative partisan argument put forward by Beramendi et al. (2015), empirics are more supportive. However, there seems to be substantial inconsistencies between effects at the party level and the government level. For physical capital investments, there is a significant effect of the social-value dimension on spending, but not on manifesto priorities, and for educational investments, it is the other way around. Investments in innovational capital are the only case where results with manifesto data and spending data consistently back the realignment argument. This points to a general weakness of both partisan approaches, namely that they tell us very little about potential cross-policy variation and how to explain it when it occurs. That topic will be one of the themes in the next chapter, which presents an alternative supply-side theory of investment politics.
Chapter 4:
A supply-side theory of investment politics

This chapter presents the overall theoretical framework of the dissertation and is divided into two main sections. The first part describes how a supply-side approach to politics diverges from the existing partisan theories presented in Chapter 3. In sum, four key differences are highlighted concerning the following parameters: (1) the degree to which parties are constrained by structural conflicts in society, (2) what motivates parties, (3) how parties compete with each other, and (4) which policy components incentivize parties to supply policy. The second part of the chapter applies this supply-side framework to investment politics.

4.1 The supply-side approach

4.1.1 Demand-side versus supply-side politics

Political parties play a vital role in the policy process of democracies. On the input side, they constitute the central linkage between voters and politics, and on the output side, they act as government members with authority to shape and form policy decisions. In a nutshell, the central difference between a supply-side approach and the existing literature is the question of how parties administer these tasks in the policy process. As described in Chapter 3, traditional partisan theory and realignment scholars focus on the representative role of parties. Put differently, this line of theoretical work takes a demand-side approach to politics, or what De Vries and Marks (2012) coin a sociological, bottom-up perspective. Within the framework of partisan theory, parties essentially constitute the organizational culmination of deeper structural conflicts, and their main job is to serve as political representatives of different social groups related to these divides (see also Lipset and Rokkan 1967). From a demand-side perspective, parties therefore ultimately work as ‘transmission belts’ that transform socio-structural conflicts in society into political output.

In contrast, supply-side scholars expect parties to take on a more independent and proactive role in the policy process. This alternative framework
has its roots in American political science\[^{14}\] (Baumgartner and Jones 2009; Carmines and Stimson 1989; Riker 1986; Schattschneider 1960) and can also be described as a top-down approach to politics (De Vries and Marks 2012). The starting point for supply-side scholars is that political inputs, potential problems, and demands for policy solutions are close to endless, but the capacity of the political system to address these problems and provide solutions is fairly limited. This mismatch generates a political agenda – defined as ‘the ranking of the relative importance of [...] various issues’ (Dearing 1989: 310) – that works as a gateway between societal demands and the political system.

Proponents of a supply-side approach point out that the content of this political agenda is not a coincidence nor necessarily a reflection of socio-structural divides, but rather a result of deliberate decisions by the political elite. In the words of Carmines and Stimson (1989: 6), ‘strategic politicians play the most obvious and perhaps most influential role in determining the relative competition among political issues [because] successful politicians instinctively understand which issues benefit [...] their party and which do not.’ This agenda-setting power, which Bachrach and Baratz (1962) refer to as ‘the second face of power’, implies that political parties not merely should be seen as ‘vessels carrying societal divisions’ (De Vries and Marks 2012: 187-8). Instead, supply-side scholars highlight that these political organizations are better described as independent agents that ‘actively structure and determine the content of societal conflict’ (ibid.).

From a supply-side perspective, the political elite is therefore regarded as the central promoter of policy change, while the electorate plays a more reactionary role. Following Carmines and Stimson’s (1986; 1989) seminal model of ‘issue evolution’, voters respond to the political supply they are offered by elites rather than initiate new proposals for policy change themselves. This reactionary view of voters squares well with the finding that citizens only spend few cognitive resources on politics (Carpini and Keeter 1996; Galston 2001), while politicians in contrast dedicate most of their waking hours to it. In other words, an asymmetry in effort is likely to give politicians the upper hand in the agenda-setting process. This understanding of the voter-party linkage is also supported by a growing literature on political behavior that documents the importance of party cues and framing for public opinion formation (Chong and Druckman 2007). Of course, a supply-side approach should not be taken to mean that voters’ policy preferences are irrelevant or

\[^{14}\] However, it is also often applied to West European politics, see e.g. Meguid (2005, 2008), Green-Pedersen (2007, 2011), Green-Pedersen and Walgrave (2014), De Vries and Hobolt (2012), Van Der Wardt (2014a).
that voters do not punish and reward parties for their actions and stated intentions. However, it does imply that politics and policy change tend to start with the political elites and end with the voters (Carmines and Stimson 1986).

In general, the major difference between a supply-side approach and the demand-side approach applied by partisan scholars therefore is that the former views politics as a consequence of the strategic agency of political parties rather than a direct result of socio-structural divides in society. However, supply-side scholars also diverge from the demand-side approach in three other ways: They point out that parties hold other motives than ideological policy goals; that parties do not necessarily compete with each other through position taking; and that other aspects of policy besides those related to underlying socio-structural divides matter for parties’ policy choices. The following sections will elaborate on these three additional differences.

4.1.2 Party motives and the core-periphery dimension

Partisan scholars focus on parties’ desire to represent their loyal supporters through the pursuit of specific ideological policy goals. It is, however, well established in the literature on party objectives that they have other ambitions as well (Müller and Strøm 1999). In particular, scholars working in this literature find that political parties also sometimes have the ambition to maximize votes as well as an appetite for the fringe benefits and prestige that come with office participation. As I will argue below, a full understanding of why some parties prioritize public investments requires that these additional vote and office objectives are incorporated into the theoretical framework. First, however, it is important to note that vote and office ambitions are more pronounced for some parties than for others.

Building on the work of Schumacher et al. (2015), Paper A elaborates on this claim. The starting point is that political actors operate and make decisions under informational constraints and never know precisely what the consequences of their actions will be. To overcome this uncertainty, goal setting is therefore often guided by past experiences. Models of bounded rationality (Simon 1955; Bendor et al. 2011) predict that actors use previous successes and failures as benchmarks, or aspiration levels, to assess the feasibility of future objectives. Schumacher et al. (2015) convincingly argue that this logic of adaptive reasoning also applies to the office motives of political parties. More precisely, they hold that parties assess their own chances of government participation in the future on the basis of past experiences with the executive branch. If parties have managed to get into office in the past, they will be more confident about office participation in the future and there-
fore also pursue it more forcefully. To use the authors’ terminology, parties with extensive government experience will have higher office aspirations. In comparison, parties that repeatedly have failed to get the executive power will be more modest about their own chances to get into office prospectively. In this way, office aspirations adjust dynamically over time as parties gather new experiences, and the end result is that some parties hold higher office aspirations than others.

While not explicitly theorized by Schumacher et al. (2015), there is no obvious reason why the vote ambitions of parties should not follow a similar dynamic adjustment. As argued in Paper A, it seems reasonable also to assume that parties that have managed to attract a large group of voters in the past hold high vote aspirations, that is, the level of votes they expect to win and set as criteria for success in future elections is likely to be relatively ambitious. In contrast, parties that have relied on a narrower group of voters previously should be more modest in terms of expected electoral support in forthcoming elections. Of course, this does not mean they do not want to increase their vote share from its current level, but it does imply that the total amount of votes these parties aim to capture and find realistic to attract is lower.

That being said, vote and office aspirations tend to go hand in hand, as illustrated in Figure 4.1. This positive correlation exists because large parties have a much stronger bargaining position in the government formation process (Gamson 1961; Bäck and Dumont 2008; Warwick 1996). Accordingly, historically large parties are typically also the parties with most government experience. In terms of goal setting, this implies that parties with high office aspirations tend to have high vote aspirations as well.\footnote{This should of course not be taken to mean that parties never face a trade-off between office and vote aspirations. Indeed, we could easily imagine a situation where these aspirations collide, and parties would have to choose one of the two ambitions. What they decide to do in such a situation is beyond the scope of this dissertation. However, it would be an interesting topic for future research.}

\[\text{Office Aspirations} \rightarrow \text{Vote Aspirations}\]
Put differently, these considerations illustrate the existence of a core-periphery dimension in party systems based on vote and office ambitions. At one end of this continuum (upper-right corner of Figure 4.1), we have a set of core parties with high office and vote aspirations. Core parties have grown accustomed to operating at the core of the processes that link voters to politics on the input side (historically large vote share) and later shape the policy output of the executive branch (frequent government participation). The British conservatives, the Danish social democrats, and the German CDU are examples of such parties. Due to their high office and vote aspirations, we would expect core parties to adopt a rather diffuse and ‘catch-all’-oriented (Kirchheimer 1966) policy platform that incorporates concerns about future government participation and appeals broadly to capture a large share of the electorate.

At the other end of the spectrum (lower-left corner of Figure 4.1), we have a set of peripheral parties that play a more marginal role in the political system. They tend to rely on a relatively small fraction of the electorate and never, or at least rarely, participate in the executive branch. This group in-

Figure 4.1. The distribution of vote and office aspirations among parties in Western democracies

Notes: Office aspirations are measured as parties’ past government experience, and vote aspirations are measured as parties’ historical vote share. For more details on data and operationalization, see Paper A. The variables are country-demeaned and therefore can obtain a negative value. Bivariate relationship: 0.61.
cludes many radical right parties, radical left parties, Green parties as well as a substantial number of parties from other ideological families, for instance the Norwegian Christian Democratic Party, the Irish Labour Party, and the Canadian New Democratic Party. Due to relatively low office and vote aspirations, peripheral parties hold few hopes of getting into office in the future and they have more modest expectations about the level of votes they can capture. Accordingly, their policy platforms should be less oriented towards potential office participation and instead be geared towards a relatively narrow group of party activists. This also means that peripheral parties are likely to adopt a rather ideologically distinct program that emphasizes conflictual policy areas and allows them to benefit from ‘product differentiation’ (Kitschelt and McGann 1997).

It is worth mentioning that a party typology related to this core-periphery dimension is the mainstream-niche dichotomy applied in the party competition literature (Meguid 2008, 2005; Adams et al. 2006; Ezrow et al. 2011; Wagner 2012). However, while peripheral and core parties are consistently defined on the basis of their office and vote motives, the exact definition and operationalization of niche and mainstream parties remain disputed. Some scholars define nicher on the basis of parties’ policy profiles (Meguid 2008, 2005; Wagner 2012; Meyer and Miller 2015), while others come to a somewhat different definition using party families (Adams et al. 2006; Ezrow et al. 2011). In this context, both alternatives would be less suitable than the core-periphery framework. First of all, and given that parties’ policy profiles constitute a central explanandum in the dissertation, using the same policy programs to delimit an independent variable would be tautologous (see also De Vries and Hobolt 2012). The use of party families would also be less preferable because this alternative dichotomous classification prevents parties from changing status over time and does not take into account that many small peripheral parties with fairly low office and vote aspirations actually have a mainstream ideology.

That being said, scholars often implicitly assume mainstream parties to be ‘government actors’ (Meguid 2005: 352) and ‘catch-all parties’ (Adams et al. 2006: 513), and niche parties to be the opposite. In this way, the core-periphery dimension could potentially work as an alternative and more consistent niche-mainstream party conceptualization, if these motives are really what scholars are interested in. However, using existing niche-mainstream party definitions to classify vote and office ambitions would only introduce more noise.

Another related question is whether we could simply use one of the two dimensions instead of both. Even if we would catch some of the same variation, relying exclusively on vote aspirations or office aspirations would lead
to more imprecise measurement given that the bivariate relationship between the two is far from perfect (0.61). This is also evident from Figure 4.1. If we for instance only used office aspirations, several junior government parties like the Dutch Democrats 66 or the German Free Democratic Party (FDP), which have a relatively long government record but remain fairly small, would be categorized as full-blown core parties, even if this is not the case. Likewise, some large parties like the Danish People’s Party do not use their size to gain office. These anomalies would not be captured by relying solely on vote aspirations. However, by combining both dimensions into a single additive index, as Paper A does, we avoid these pitfalls.

Finally, it is of course relevant to ask how the core-periphery dimension relates to parties’ ideological motives, which form the basis of partisan theory. Figure 4.2 helps us to answer this question. Even though there is a small positive correlation between the dimension and both ideological indicators, the plots clearly illustrate that peripheral parties and core parties come in many different ideological flavors. Distinguishing parties on the basis of their vote and office motives is therefore clearly different from a classification based on ideology.
Figure 4.2 Core-periphery dimension and ideological indicators

Plot A

Plot B

Notes: Data are from Paper A. The indicators are country-demeaned. Bivariate relationships are 0.12 in Plot A and 0.16 in Plot B.
A second difference concerns party competition. While it is generally agreed upon that parties fulfill their goals and objectives in competition with each other, supply-side and demand-side scholars envision the nature of this competition differently. Partisan theory holds at least three assumptions about the scope of the political fight between parties. First, parties are assumed to compete with each other by taking different positions on the same policy domains. Typically, some parties are expected to work for the expansion of a policy program, while others should work for its abolishment. Second, the theoretical framework of partisan theory implies that the positional competition between parties takes place along one or few conflict dimensions. The general idea is that policies come in ideological packages and therefore policy debates will bundle into larger ‘super dimensions’ or cleavages (Pierce 1999; Gabel and Huber 2000; De Vries and Marks 2012; Rovny and Edwards 2012). Finally, partisan scholars expect that the dimensionality and the content of politics remain fixed or frozen for very long periods of time because both factors are constrained by exogenous, slow-moving socio-structural developments (Lipset and Rokkan 1967; De Vries and Marks 2012; Green-Pedersen 2017).

Supply-side scholars challenge these assumptions. Building on Schattschneider’s idea of a ‘conflict of conflicts’, they argue that parties compete with each other by emphasizing different policies (Robertson 1976; Budge and Farlie 1983; Carmines 1991; Carmines and Stimson 1993; Green-Pedersen 2007). Party politics is therefore often a product of salience-based competition rather than position taking. The starting point for proponents of this view is the observation that parties rarely engage in ‘direct confrontation’ on the same policies (Robertson 1976). Parties are more inclined to selectively emphasize those policy solutions they have an interest in and de-emphasize those less favorable to their own objectives. Therefore, the most interesting element of parties’ strategic behavior tends not to be their policy positions, but rather their policy priorities, that is, which policies parties

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16 This focus on position taking follows spatial theories of party competition (e.g. Downs 1957; Enelow and Hinich 1984; Hinich and Munger 1997; Macdonald, Listhaug, and Rabinowitz 1991). However, while partisan scholars generally expect parties to take distinct ideological positions (cf. Chapter 3), spatial theorists usually follow the supply-side approach and think of parties as strategic actors who are less bound by ideology, e.g. Down’s median voter theory (1957).

17 In fact, this perspective on party competition has many names, including selective emphasis theory (Robertson 1976), salience theory (Budge and Farlie 1983), and issue competition theory (Carmines 1991).
emphasize and politicize at the expense of others. In contrast to the partisan approach, supply-side scholars thus view the dimensionality and content of politics as endogenous to party strategies, not given by exogenous social structures, and also less stable over time.

Now, what does a party actually get out of prioritizing some policies over others? In general, the literature on agenda setting and salience theory offers two answers to this question. First, agenda setting scholars hold that political attention is consequential in terms of policy output. When attention in the political system is devoted to a specific policy area, governments are more likely to be held accountable for their decisions (Armingeon and Giger 2008; Green-Pedersen and Mortensen 2010) and policy change is therefore also more likely to occur (Baumgartner and Jones 2009; Kingdon 1995; Jensen and Seeberg 2015; Seeberg 2013). Hence, pushing a policy onto the political agenda works as a way for parties to put pressure on the government and thereby increase the chances of policy change. Second, policy priorities are likely to have consequences for electoral support. The policy solutions that parties prioritize constitute a menu of choices that the electorate can choose from and signal to voters what parties find important. Prioritizing specific policies therefore also works as an instrument to capture voters. For instance, many studies find that parties emphasize those policy domains where voters view them as competent, that is, where they have issue ownership (Petrocik 1996; Dolezal et al. 2014), or that parties prioritize policies in order to actively improve their perceived handling competences (Holian 2004; Tresch, Lefevere, and Walgrave 2015; Stubager and Seeberg 2016). In a similar vein, it can also sometimes be electorally advantageous for parties to avoid talking about some policy areas, for instance due to internal disagreements in their electoral base (Van de Wardt 2014b).

4.1.4 The role of policy structure

The final difference between a supply-side theory and existing literature concerns which aspects of policies that affect politics and determine the priorities of political actors. Demand-side scholars only focus on policy characteristics that have direct relevance to the underlying conflict divide in society and the social groups related to it. For traditional partisan theory, this implies that the redistributive impact of policies becomes the crucial structuring element for politics. That is also why we observe that most partisan accounts of investment politics concentrate on how public investments reallocate resources between different income groups. While such a focus clearly is relevant sometimes, it is problematic only to look at this specific aspect of policies. Most obviously, one consequence is that other potentially relevant
policy attributes implicitly are discounted a priori; for instance, when policy effects are expected to set in or how visible their consequences are. Another related problem is that political dynamics are not allowed to vary with the kind of policy under investigation. Because demand-side scholars focus on the same aspect of policies and view them as ‘a package of related interventions’ (Hacker 2002: 40) merged into the same underlying conflict, they have a hard time explaining why politics sometimes unfolds differently across different programs. Potential cross-policy variation in politics is simply unlikely and to some extent unexplainable from a partisan perspective.

A supply-side approach to politics does not adhere to such a ‘single issue view’ (Green-Pedersen and Jensen 2017: 5) of policy-making. Instead, the starting point for this more general framework is to access a policy’s structure – defined as the expected outcomes of the policy – and then derive a set of expectations about political behavior. Doing so allows for a more nuanced understanding of politics and opens up the opportunity that distinct kinds of policy have distinct political dynamics.

This notion is far from new. In fact, it forms the basis of an old and well-established literature on policy typologies. The central message in this line of work is that policy structure varies in systematic ways and influences the way political actors behave. Typically, the starting point for these studies is Lowi’s (1964) three-part policy classification. Lowi distinguishes between (1) distributive policies that generate particular benefits financed by a general fund (i.e. taxpayers), (2) redistributive policies that transfer money from one societal group to another, and (3) regulative policies that define rules for individual and collective behavior. Because the distribution of costs and benefits varies across these policy domains, he expects distinct political dynamics for each policy type. For instance, distributive policies should be characterized by a high degree of consensus as these programs mainly produce winners, while redistributive policies that generate visible losers and winners should foster extensive political conflict (see also Knill and Tosun 2012). Many have later modified Lowi’s work or created rival typologies (e.g. Steinberger 1980; Smith 1982; Hayes 2007), most notably Wilson (1974), who categorizes policies on the basis of whether policy action leads to concentrated or diffuse benefits and costs.

Likewise, studies of agenda setting often come to the conclusion that policy domains have their own political logic. In general, they point out that politicians’ willingness to supply policy solutions depends on the nature of the problem that has to be solved and which opportunities the problem gives in terms of framing (Baumgartner and Jones 2009: 53; Cobb and Elder 1983; Rochefort and Cobb 1993; Knill and Tosun 2012). For instance, Cobb and Elder (1983) point out that problems of a non-technical nature and with a
strong social significance are addressed by the political system more often than highly technical problems with less severe consequences (see also Carmines and Stimson 1980). Similarly, studies of mass communication find that agenda dynamics depend on the abstractness of a problem (Yagade and Dozier 1990) and its obtrusiveness, i.e. the degree to which problems force themselves into the direct experiences of individuals (Zucker 1978; Soroka 2002). Variation in the problems that policies aim to solve – that is, their potential consequences – is thus likely to make some policies more salient among politicians than others.

4.2 Applying the supply-side framework to investment politics

Building on these insights, the remainder of the chapter applies the supply-side framework to investment politics. The following sections describe how the temporal structure and the growth component of investments affect two central stages of the political process where parties supply policies (for more details on these two stages, see Chapter 5). The first four sections, which are based on Papers A and B, focus on the agenda-setting stage and address whether and why parties prioritize investments in their salience-based competition with each other (the party level). Subsequently, the last two sections, which are based on Paper C, move from the agenda-setting stage to the executive decision-making stage and ask how the unique policy characteristics influence incumbents’ spending decisions (the government level).

4.2.1 Temporal structure and systemic investment prioritization

The first claim of the dissertation concerns the relationship between temporal structure and the systemic level of investment prioritization, that is, the degree to which investment policies are politicized by parties within the political system in general.\footnote{The systemic level of investment prioritization is operationalized as the average amount of attention devoted to investments in all parties’ manifestos (see e.g. De Vries 2010; Steenbergen and Scott 2004). For more details on measurement, see also Chapter 5.} We have several reasons to believe that parties can appeal stronger to voters by addressing present rather than future needs and problems. While economists for a long time have pointed out that actors generally time discount the value of future benefits (e.g. Frederick, Loewenstein, and O’Donoghue 2002), the role of time is often neglected in political science. Recently, however, Jacobs has addressed this omission in a
series of contributions (Jacobs 2011, 2016; Jacobs and Matthews 2017). He holds that many political choices are intertemporal and offers two arguments for why party appeals will be biased towards the present. First, information about distant outcomes often appears less urgent and relevant than information about immediate phenomena. Therefore, it is likely that political actors will focus their limited cognitive capacity on obtrusive issues with direct and immediate consequences (Zucker 1978; Soroka 2002; Jacobs 2011). In addition, promising to deliver future benefits is typically not very credible because it involves a high degree of uncertainty. If politicians pledge to deliver a good in the future, voters cannot know for certain whether the elected officials will defect over time or be replaced by others with different preferences. This is also known as the time inconsistency problem (e.g. Alesina and Tabellini 1988; North and Weingast 1989; Persson and Tabellini 2003; Jacobs and Matthews 2017).

Based on these findings concerning politics and temporality, it seems plausible that the temporal delay in benefits generally makes it fairly unattractive for parties to prioritize investments. Long-term capital returns might generate a substantial set of benefits, but they arrive in the distant future and constitute solutions to problems whose consequences are not felt by voters yet. The strength with which parties can appeal to voters via investments should therefore be limited.

Of course, this is only the case when investments do not produce politically relevant benefits in the short run. As described in Chapter 2, the short-term appeal of investments varies. In particular, human capital investments generate a set of consumption benefits in the short run that affect the everyday lives of a relatively large share of the electorate. Compared to future returns, such short-term benefits send a much stronger signal to voters because they relate to immediate needs and are less uncertain. Following this line of reasoning, the first theoretical proposition of the dissertation therefore is that variation in the short-term consumption appeal of investments affects the systemic salience level. In concrete terms, this implies that human capital investments should generally be a higher priority in party systems compared to other investments. With this type of investment, parties can address voters’ immediate concerns about the quality of educational institutions, teacher wages, student grants, and other short-term needs. In contrast, party competition over investments in physical and innovational capital should be much less salient. These investments – in particular innovational capital investments – have much weaker short-term appeals and mainly address future needs. This should reduce parties’ incentives to take up these policies, leading to a lower systemic prioritization.
4.2.2 Party differences in investment priorities: Who cares about the long run and why?

Does the short-term bias in politics mean that parties never prioritize investments because of their long-term growth returns? No. However, whether or not parties emphasize investments due to these long-run gains depends on their proximity to the political core. The willingness of parties to use the growth component as a strategic tool in their competition with other parties thus constitutes a central driver of cross-party differences in investment priorities.

While the existing literature focuses on ideological policy goals, Paper A offers two reasons why core parties with high vote and office aspirations should have more interests in the long-term growth effects of investments than peripheral parties. First and foremost, and as noted in the section above, high office aspirations imply that core parties expect to participate in future governments. This expectation gives them a natural interest in the long-run sustainability of the economy. The simple reason is that a better economy in the future will make it much easier for the next generation of governments to claim credit and avoid blame (Lewis-Beck and Stegmaier 2007). As part of a long-term electoral strategy, core parties should therefore try to draw attention to public investments and their long-term growth effects in order to secure successful incumbencies in the future. In other words, public investments are also ‘political investments’ for these parties. The future electoral survival of peripheral parties, on the other hand, is much more detached from national long-run economic growth. Given their lower office aspirations, these parties expect to remain part of the opposition that is not held accountable for the economy and cannot use increasing tax revenues from a prosperous economy to claim credit. This means that peripheral parties do not anticipate future electoral gains from investments in the same way as core parties do.

Core parties also have a more immediate interest in the growth effects. With high vote aspirations, these parties have to appeal to a large and often heterogeneous group of voters (Giger and Nelson 2013). This challenge can be achieved through position blurring (Kitschelt 1999; Downs 1957) or position moderation (Abou-Chadi and Orlowksi 2016; Kirchheimer 1966). However, as Paper A suggests, parties might also try to solve this task by directing attention towards policy solutions that most people agree on. Because of their net-beneficial nature, the long-term gains of investments fit such a ‘broad-appeal strategy’ (Somer-Topcu 2015) nicely. Core parties therefore also have incentives to emphasize investment because of their vote aspirations. Investment emphasis will help them to appeal broadly and reach out to
a large pool of voters with heterogeneous preferences. Peripheral parties with lower vote aspirations do not have a similar catch-all ambition, and broad-appeal strategies are therefore less relevant for them.

Taken together, these theoretical arguments suggest the existence of a core-periphery divide in parties’ investment priorities generated by varying incentives related to the long-run returns of investing. More precisely, core parties should not only prioritize investments when they have a strong consumption appeal; these parties also push for investments because long-term growth effects ensure successful incumbencies in the future and appeal broadly to voters.

4.2.3 The conditioning role of capital tangibility: A different logic

Paper B points out a notable exception to this pattern. More precisely, it highlights that the core-periphery divide is probably less clear-cut when it comes to physical capital investments. As Chapter 2 describes, physical capital is tangible and therefore leads to much more concrete and geographically concentrated returns in the long run. These long-run effects are less dispersed and as such also less suitable for broad-appeal strategies. Instead, this specific benefit configuration makes physical capital investments obvious candidates for pork barrel campaigns (Wilson 1974). Pork barreling refers to political initiatives that transfer resources to a territorially delimited group of voters, most notably an electoral district, for purely strategic purposes (Mayhew 1974). Pork projects are popular and forceful strategic political tools because they specifically target the group of voters that politicians need for reelection. However, such strategies also have a ‘malign status’ and quickly signal opportunism and clientelism (Evans 2004).

Being associated with opportunistic behavior is particularly dangerous for core parties because, as competitors for office, they have to uphold an image as responsible rulers (Clark 2009; Stone and Simas 2010; Abney et al. 2013). Therefore, core parties should be more reluctant to campaign on investment programs that only benefit specific territorial groups. In fact, this fear of losing character-based valence should be so strong that it to some extent offsets their long-term incentive to ensure better economic conditions for the next generation of governments. Parties further away from the political core are less constrained by a need to signal their governability and therefore have a stronger incentive to use the concrete and geographically concentrated long-run returns that flow from physical capital investments in pork barrel campaigns. The core-periphery divide is therefore likely to be more blurred for this type of investment.
4.2.4 Overview of theoretical expectations about parties’ investment priorities

Figure 4.3 sums up the predictions about party competition over public investments in the agenda-setting stage of the policy process. Parties should emphasize human capital investments both because of their short-term consumption benefits and their long-run capital returns. First and foremost, strongly appealing consumption benefits are expected to make this type of investment a salient concern among parties in general. This implies that we should see a relatively vocal competition between parties that want to signal their commitment to the present needs and concerns of short-term beneficiaries. In addition, core parties are expected to emphasize human capital investments due to their intangible and widely dispersed returns in the long run. They do so partly because it is in their own long-term interest to draw attention to the sustainability of the economy and partly because it helps them to appeal broadly to the electorate. In Figure 4.3, this is illustrated by the positive slope of the human capital investments line.

Figure 4.3. Theoretical expectations about the investment priorities of parties

Public investments in physical and innovational capital have a much weaker consumption appeal, and therefore these policies probably get much less attention from parties in general compared to human capital investments. In the figure, this cross-investment variation in systemic prioritization is illustrated by the fact that the lines for innovational and physical capital investments are positioned beneath the human capital investments line. Despite
the lack of a strong consumption appeal, some parties do still emphasize investments in innovation and infrastructure because of their long-run growth effects. Core parties should be the primary promoters of investments in innovational capital, whereas differences between peripheral and core parties are likely to be more blurred for physical capital investments. The geographically concentrated returns of these investments make them more attractive for peripheral parties that can engage in pork barrelling campaigns, while core parties should be more reluctant to emphasize physical capital investments because they jeopardize their image as responsible rulers. For the sake of simplicity, this more ambiguous core-periphery divide is illustrated with a horizontal slope of the physical capital investments line in the figure.

It should be noted that Figure 4.3 simply illustrates general theoretical points, and the exact location and slopes of the three investment lines should not be overinterpreted. The theoretical framework tells us that the human capital investments line generally should be positioned above the other lines due to variation in temporal policy design, and that the growth component makes the slopes of the investment lines positive, unless capital is tangible as in the case of physical capital investments. More precise predictions than that would among other things require that we knew the relative importance of the temporal component and the growth component. For instance, that would make it possible to determine exactly where the physical and innovational capital investments lines intersect. However, given the limited research on the role of these unique policy characteristics, such precision in predictions seems too demanding at this stage. For now, the central aim of the theory is first and foremost to foster an understanding of how rather than how much both policy traits matter.

4.2.5 Do governments prioritize the future? The pessimistic account

Party competition in the agenda-setting stage of the policy process and government behavior in the decision-making stage are often studied in isolation from each other. This is a shame, since it prevents us from getting the full picture. If one only analyzes party competition, it becomes hard to say what the exact output of politics is. Likewise, a narrow focus on government decision-making makes it hard to fully grasp the political environment in which executive decisions are made. Therefore, a complete understanding of the political process requires both analyses of what parties say in the agenda-setting phase and what the government actually decides to do. To accommodate this point, the dissertation also explores what happens once parties get
into office. More precisely, Paper C investigates under what conditions governments spend money on public investments.

Now, by definition, governments should mainly consist of core parties. Based on the predictions above, these parties tend to be those in the party system with most incentives to prioritize the long run and pursue investments because of their long-term growth returns (at least when capital is intangible). Can we expect that stated political intentions about taking care of the future also translate into actual policy output when parties get into government? Sadly, from a theoretical point of view, this is not very likely. The reason is that it is even less attractive for parties to cater to the long run once they enter the executive branch of the political system.

To see this, one has to acknowledge two things. First, government participation is not only about transforming own policy priorities into actual output; it also involves a heavy responsibility. Incumbents are expected to deliver political solutions to a vast amount of problems in society, and if they fail to do so, voters will not hesitate to punish them. A substantial element of being in government thus is to avoid getting blamed for insufficient policy performance and unpopular outcomes (Weaver 1986; Pierson 1994, 2001; Green-Pedersen and Mortensen 2010). Second, and relatedly, officeholders are more likely to get blamed for their short-term performance than for the long-term effects of their actions. According to standard voting models, voter evaluations of executive decision-making happen retrospectively. In the simplest version, voters access governments’ performance by comparing whether they themselves are better off at this election than they were at the last election (Fiorina 1981; Kramer 1971). This means that governments are held accountable mainly for what they deliver to voters during their term in office and not for the potential consequences of their decisions in the future. Governments therefore have a strong reelection incentive to act shortsighted when they decide on policy output. As Nordhaus (1975: 187) formulates it, ‘a perfect democracy with retrospective evaluation of [governing] parties will make decisions biased against future generations.’

According to Jacobs (2011), this short-term bias in electoral accountability of governments makes it unattractive – or even electorally risky – for incumbents to invest. The reason is that public investments require that officeholders impose short-term costs on voters before the upcoming election to finance the programs, while the long-run gains only become visible to voters after the election. Given the retrospective nature of voter evaluations, governments are therefore likely to be held accountable for the costs of investing, but not rewarded for the long-term growth returns. Renewed focus on this ‘intertemporal dilemma’ of governments (Jacobs 2016: 1) is increasingly causing political scientists to be more pessimistic about the chances of
seeing new public investments. For instance, Ferrera (2017: 1233) notes that investment reforms require ‘a degree of “political patience” on the side of both current voters and incumbent politicians which is not readily available in contemporary democracies.’ Similarly, Hemerijck (2015: 250) suggests that this temporal challenge might be one of ‘the most profound political obstacle[s] to the diffusion of social investment.’

4.2.6 Cross-investment variation in temporal structure and public spending patterns

It seems clear that the way in which governments are held accountable for their decisions by voters probably makes policy output less future-oriented. But does the short-term bias in electoral accountability also entail that it is electorally risky for incumbents to invest as suggested by Jacobs and the pessimistic predictions cited above? Paper C argues that this is not necessarily the case, if one takes into account that short-term consumption appeal and temporal structure vary substantially across investments. As pointed out in Chapter 2, the consumption benefits of investments in human capital fall in the hands of a fairly large and politically important group of immediate beneficiaries. These voters have clear short-term interests in public efforts directed towards skill formation and therefore also have good reasons to base their retrospective evaluations on how the incumbent has performed in this policy area. This scenario seems even more plausible given the high systemic salience of human capital investments in party systems. Several studies document that the risk of blame attribution is markedly higher for officeholders when policies are salient on the political agenda and politicized by the opposition (Armingeon and Giger 2008; Green-Pedersen and Mortensen 2010; Seeberg 2013; Jensen and Seeberg 2014). If we acknowledge the strongly appealing consumption benefits, it thus leads us to the exact opposite of what Jacobs and other more pessimistic accounts envision: It might actually be electorally risky for governments not to invest in human capital.

When it comes to investments in physical and innovational capital, there are more reasons to be pessimistic. The short-term beneficiaries of both physical capital and innovational capital formation are not politically potent to the same extent, and the systemic attention to these investments is much more limited. This implies that incumbents are less likely to be named and shamed for their performance. Policy developments simply go more unnoticed. As a consequence, governments have few incentives to take the risks involved in the short-term reallocation of funds needed to finance these programs.
Paper C argues that this cross-investment variation in short-term consumption appeal and related risks of blame attribution influence government spending decisions in two ways. First, it should affect the timing of investment spending. A well-established literature on electoral business cycles shows that incumbents strategically increase benefits to voters around elections to maximize reelection chances (e.g. Nordhaus 1975; Alesina, Cohen, and Roubini 1993; Canes-Wrone and Park 2012). Paper C proposes that this logic also applies to human capital spending, because governments want to please the politically important short-term beneficiaries as much as possible in election years. A similar pattern is not to be expected for investments in innovational and physical capital with weaker short-term appeals. The immediate beneficiaries of these investments are much less important for the electoral survival of governments, which therefore have fewer incentives to strategically time their efforts.

Second, the cross-investment variation in temporal structure is expected to affect the way governments respond to fiscal pressure. More precisely, incumbents faced with an urgent need to cut should be more willing to retrench innovational and physical capital investments with weak short-term appeals and avoid cutbacks in consumption-heavy investments in human capital. Cutting the latter would impose clear and immediate costs on a large and important voter segment and increase the risk of electoral punishment at the upcoming election substantially. In contrast, the potential political repercussions from retrenching investments in physical and innovational capital are much smaller: The group of short-term beneficiaries that can punish governments at the next election is manageable, and most of the negative consequences come in the form of missing long-run returns in the future. These consequences only become visible long after the current government’s potential reelection and therefore pose a much smaller electoral threat.

Below, Table 4.1 sums up the overall theoretical expectations about government investment behavior.

Table 4.1 Overview of theoretical expectations about government priorities

<table>
<thead>
<tr>
<th></th>
<th>Human capital investments</th>
<th>Innovational capital investments</th>
<th>Physical capital investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensitive to fiscal pressure?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Electoral business cycles?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

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Chapter 5:
Studying investment politics in a comparative perspective

Following the majority of studies in the CPE literature, the papers in the dissertation use quantitative analyses of time-series cross-sectional (TSCS) data to test the proposed theoretical arguments. The central advantage of a TSCS research design is that the analytical scope is broadened substantially across both time and space. This gives us more degrees of freedom to estimate fully specified models and allows for better control of alternative explanations. To reap these benefits, however, we need data that have sufficient coverage. This chapter describes how the dependent variables applied in the papers are measured, gives a brief overview of data sources and discusses a set of general challenges that need to be addressed in statistical analyses of TSCS data.

5.1 Measuring political priorities at different stages in the policy process

The developed supply-side theory of investment politics detailed in Chapter 4 focuses on two stages in the policy process. The first part of the argument concerns parties’ investment priorities in the agenda-setting stage where it is determined which of the endless number of problems in society gets attention in the political system. As highlighted by supply-side scholars, the content of the political agenda is not simply a coincidence but rather a direct consequence of political parties’ strategic incentives to politicize those policy domains that suit their own interests best. To capture whether parties prioritize public investments in this process, the dissertation follows the standard practice and relies on party manifesto data.

Party manifestos constitute one of the most popular sources of information for scholars interested in party competition dynamics, and this popularity stems not least from the fact that these political texts are among the only collective policy statements that parties make (Budge et al. 2001; Budge 2013). In practical terms, policy priorities are extracted from the man-

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19 Some studies of party competition also use expert surveys. However, the coverage of these data in terms policy areas, countries, and time is considerably lower compared to the party manifesto data (Gemenis 2013). This makes party manifestos the most obvious choice in the context of this dissertation.
ifestos through a two-step procedure: First, each sentence in the manifesto texts is assigned to a specific policy category following a detailed coding scheme, and then the number of sentences devoted to each policy category is divided by the total number of manifesto sentences. This generates a set of indicators that allow us to assess whether parties highlight public investments as important and try to push these policies onto the political agenda.

The second part of the developed argument focuses on the executive decision-making stage where governments decide the actual policy output. Whereas the agenda-setting phase is rhetorical in nature and concerns all political parties, executive decision-making is about real actions and only involves those parties that have managed to become part of a government coalition. To capture incumbents’ actual investment behavior, or what can also be referred to as the investment priorities of governments, the dissertation relies on spending data. More precisely, the dependent variable in this part of the analysis is the amount of public expenditures dedicated to investments as a percentage of the gross domestic product (GDP). Using this exact indicator with GDP as denominator allows us to assess the willingness of office-holders to prioritize public investments, given the economic resources available in a country.

In the next section, the advantages and limitations of both party manifesto data and spending data are discussed in greater details.

### 5.2 Data sources

Table 5.1 lists the data sources used in the papers. The analyses of parties’ investment priorities in Papers A and B use coded party manifesto data from two different research projects that apply their own uniquely developed coding schemes. Paper A relies on the Comparative Manifestos Project (CMP) (Volkens et al. 2015), while Paper B uses data from the Comparative Agendas Project (CAP) (Bevan 2014; Green-Pedersen 2016; see also www.comparativeagendas.net). Both databases have advantages and limitations. CMP is the most popular and well-known collection of coded manifesto material to date and its greatest advantage is coverage. The CMP research team has coded party manifestos in most Western democracies since the end of World

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20 To be precise, the definition of a sentence varies between the CMP and the CAP coding scheme. The former uses standardized ‘quasi-sentences’ as coding unit, whereas the latter uses ordinary sentences. In practice, however, this rarely causes major differences (Green-Pedersen and Mortensen 2009).

21 As of 2009, this research project also goes under the name Manifesto Research on Political Representation (MARPOR).
War Two, and this allows Paper A to test the theoretical arguments on a large sample of 22 OECD countries spanning from 1947 to 2013.

Table 5.1 Overview of data sources and samples

<table>
<thead>
<tr>
<th>Paper</th>
<th>Dependent variable</th>
<th>Data source</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>The investment priorities of parties</td>
<td>Party manifestos coded by the Comparative Manifestos Project (CMP)</td>
<td>22 OECD countries, 1947-2013.</td>
</tr>
<tr>
<td>B</td>
<td>The investment priorities of parties</td>
<td>Party manifestos coded by the Comparative Agendas Project (CAP)</td>
<td>7 West European countries, 1980-2013.</td>
</tr>
<tr>
<td>C</td>
<td>The investment priorities of governments</td>
<td>Expenditure data from the OECD databases</td>
<td>21 OECD countries, 1980-2013.</td>
</tr>
</tbody>
</table>

A central drawback of the CMP coding scheme is its large and rough policy categories that do not allow for a consistent disaggregation of investment policies. As a consequence, CMP data cannot be used to test arguments about cross-investment variation. This is, however, possible with CAP data. While the CAP database covers fewer countries for a shorter period, it offers a much more fine-grained coding scheme with over 200 policy categories. With the use of CAP data, Paper B is therefore able to explore how much priority parties give to each of the three investment types in the agenda-setting stage.

Besides these specific advantages and disadvantages, it is also worth mentioning that the coded text materials used in the two databases are sometimes not really party manifestos but less detailed and short electoral campaign texts or related advertisement (Hansen 2008; Gemenis 2013). These surrogates are used because parties in some countries do not have a strong tradition for creating manifestos at each election (Green-Pedersen 2011: 60-61). Now, as long as the alternative texts also to some extent reflect parties’ priorities, the lack of manifesto material is not particular problematic in the context of this dissertation. However, it does produce some irregularities in the data structure. More precisely, critical assessments have highlighted that the coded documents can vary quite a lot in length, which might affect the scope of policy areas addressed in the texts, and that the amount of uncoded sentences is quite high for some countries (Hansen 2008; Gemenis 2013). By using information about text length and uncoded sentences available in the CMP database, Paper A tries to accommodate these concerns by
controlling for both factors directly in the conducted estimations. Reassuringly, and as illustrated in the paper, including such controls does not change the conclusions of the analyses. Furthermore, reviews of the Danish data, which have been particularly criticized (Hansen 2008), reveal that the new CAP coding scheme involves much fewer uncoded sentences than the CMP ditto (Green-Pedersen and Mortensen 2009). Testing the arguments on both databases therefore also makes us more certain that this more general issue with manifesto data is not driving the findings.

To capture the investment priorities of governments, Paper C relies on expenditure data collected by the OECD. In general, spending data are widely used in studies of government policy output. This choice of measurement is therefore rather uncontroversial and its popularity makes comparability with previous findings easier. Another central advantage is that these data allow for a direct comparison of government effort across policy domains (Fraser and Norris 2007; Jensen 2011b). Spending constitutes a standardized measure that transforms policy output into a monetary value and thereby makes it possible to compare incumbents’ behavior on different programs – an exercise that otherwise would be very hard. Think for instance of one government that builds a new bridge and another that increases the teacher-student ratio in schools. How can we assess which of these two governments invests the most? Well, without ‘the yardstick of money’ (Jensen 2011b: 331), such a comparison seems immensely difficult, if not impossible.

The use of government expenditures also has some potential pitfalls. First and foremost, public spending is highly influenced by economic and sociodemographic developments. Accordingly, there is a risk that spending fluctuations sometimes do not reflect the authoritative decisions of officeholders but rather mirror automatic adjustments to the socio-economic environment (Allan and Scruggs 2004; Green-Pedersen 2004). That being said, a fairly straightforward way to accommodate this concern is to simply control for these economic and demographic developments in the estimations. Doing so should factor out a large part of the non-discretionary component of the data and make us more confident that the estimated effects of the political variables reflect intended government decisions.22

Another potential problem with spending concerns comparability and data quality. Similar to most other socio-economic statistics applied in cross-country analyses, expenditure data are collected by different national statis-

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22 Furthermore, all public expenses generally have to be approved by politicians through budget laws in Western democracies. Even ‘automatic’ adjustments to economic and socio-demographic developments thus in principle reflect political decisions.
tical offices and then combined into a unified database by international agencies like the OECD, IMF, and EU. Even if these international agencies increasingly attempt to validate the data sent to them, it cannot be ruled out that the national offices sometimes categorize expenditure items in different ways or change practice over time (Fraser and Norris 2007: 52; De Deken and Kittel 2007). Such reliability problems should definitely not be ignored. However, while they might introduce some random noise to the data, we do not have reasons to believe that these issues should affect the findings in any systematic way. In addition, Paper C further tries to ensure comparability by only using data that consistently adhere to the same operational definitions and by actively addressing the risks of double counting that cross-policy analyses sometimes involve (Streeck and Mertens 2011).

5.3 Estimating relationships with time series cross-sectional data

TSCS data increases the scope of the analysis substantially, but it also introduces several statistical issues that need attention. While each paper goes into greater details, this section briefly highlights a set of general challenges that arise in quantitative analyses of TSCS data. First and foremost, unobservable country heterogeneity is likely to generate omitted variable bias if not accounted for (Allison 2009; Wooldridge 2014: Chapter 14). Country-specific factors that rarely change over time such as culture, history, geography, and political institutions often have important consequences for politics and therefore need to be controlled for as potential confounders. However, they also tend to be unobservable or at least very hard to measure in systematic ways. A widely used solution to this problem – which is also applied in the papers – is the inclusion of country fixed effects (ibid.). Fixed effects models automatically filter out the influence of all country-specific, time-invariant factors and thereby allow us to account for these important alternative explanations without having to measure them directly.

Statistical analyses of TSCS data are also often confronted with contemporaneously correlated errors, autocorrelation, and panel heteroscedasticity (Beck and Katz 1995, 1996, 2011; Plümper et al. 2005; Wooldridge 2009). The former two terms refer to situations where errors are correlated across groups and time, while the latter term implies that the variance of the errors differs across groups. In all cases, these issues violate the standard OLS assumptions and therefore need to be addressed if they occur. Throughout the papers, statistical tests have been carried out to check whether we observe these problems, and it turns out that in most of the data we do. Following the standard practice, panel heteroscedasticity and contemporaneously correlat-
ed errors are handled with the application of panel-corrected standard errors (Beck and Katz 1995, 1996), while autocorrelation is addressed through a Prais-Winsten transformation of data as recommended by Plümper et al. (2005).
Chapter 6: Summary of key findings

This chapter summarizes the key findings of the dissertation. In the sections below, the central argument of each of the three papers is first revisited briefly and then the main results are presented. Please consult the individual papers (and the previous chapters), for more specific details on theory, methods, and empirics.


With the use of CMP data from 22 Western democracies over seven decades, Paper A investigates why some parties prioritize public investments more than others in their policy programs. In contrast to existing literature’s focus on state-market ideology, the paper highlights the role of parties’ aspirations to office and ambitions to maximize votes. More precisely, it argues that core parties with high office and vote aspirations prioritize public investments more than peripheral parties, because the former group of parties have incentives to use the long-term growth effects of investments as a strategic tool in politics. With high office aspirations, core parties expect to participate in the next generation of governments whose political survival hinges on a well-functioning economy in the future, and with high vote aspirations, they need to focus on policies that appeal broadly to voters. Due to the long-term growth returns, public investments fit such strategic needs nicely, and thus, the paper expects core parties to push more intensively for investments than peripheral parties without these needs.

To test the claim, the paper constructs a core party (CP) index that captures the core-periphery dimension in party systems using data on parties’ government experience and historical vote shares. High values on the index reflect that parties are close to the political core and have high office and vote aspirations, whereas low values illustrate that parties operate in the political periphery and have low office and vote aspirations. The CP index is then regressed on investment priorities as illustrated in Table 6.1. From Model 1 in the table, we observe that the index has a positive and significant effect, indicating that core parties with high office and vote aspirations prioritize investments more than peripheral parties. Model 2 further shows that this effect remains significant, even when a large variety of controls are added to the regressions.
To further substantiate the argument, the paper also tests whether we observe a similar core-periphery pattern in party priorities on traditional redistributive policies that do not have the same long-term growth effects as public investments. If it really is investments’ unique policy structure that drives the results, we should not see the same differences between core and peripheral parties on these policies. Reassuringly, this is exactly what Models 3 and 4 indicate. As illustrated in Table 6.1, core parties do not prioritize classic redistributive policies more than peripheral parties. Instead, state-market ideology seems to be the driving factor on this type of policy domain, as traditional partisan theory suggests. This further supports the claim that the effect of the CP index in Models 1 and 2 is in fact caused by the long-term growth effects of investments. In sum, the paper thereby illustrates that the growth component constitutes a central reason why some parties are more eager to push public investments onto the political agenda than others.
6.2 Paper B: Cross-investment variation in party politics

Paper B exploits the more fine-grained coding scheme made available by the CAP research team and analyzes how party priorities vary across different types of public investments. As Chapter 4 explains, parties’ policy programs should generally be biased towards the present, because policies that address immediate needs tend to appeal more to voters than policies whose returns are only felt in the distant future. For public investments, this short-term bias in party appeals would imply that systemic investment prioritization varies with the consumption appeal of these policies. More appealing short-term benefits should increase parties’ willingness to prioritize public investments and vice versa.

Analyses of CAP data test this idea empirically by looking at the average political attention devoted to each of the three investment policy types. The results are illustrated in Figure 6.1. In all seven Western European countries under investigation that are characterized by markedly different welfare states and production regimes, we observe the expected cross-investment pattern: human capital investments with strongly appealing short-term consumption benefits receive much more party political attention than other investments, in particular innovational capital investments with the weakest consumption appeal. The empirics thus support the argument that parties generally prioritize investments more, when these policies not only produce long-term returns but also appeal directly to voters in the short run. In other words, differences in temporal structure make some investments more attractive for parties to politicize than others.
In addition, Paper B helps us to assess whether the core-periphery divide found in Paper A exists on all types of investments. More precisely, a set of fixed effects estimations carried out in the paper indicate that core parties prioritize human and innovational capital investments more than peripheral parties, while no robust differences were found for physical capital investments. This reveals that the influence of the growth component on party priorities is conditioned by capital tangibility. When investments produce widely dispersed growth returns, we observe the pattern found in Paper A. However, in cases where investments lead to tangible capital returns that mainly fall in the hands of geographically concentrated segments, the core-periphery divide becomes more blurred. The reason for this finding is likely that tangible capital returns make investments more attractive for peripheral parties that can engage in pork barrel campaigns and less attractive for core parties that risk jeopardizing their image as responsible rulers. The exact nature of the growth component thus determines which parties prioritize investments because of their long-term gains.
6.3 Paper C: Analyzing the investment priorities of governments

One thing is what parties say and state in the agenda-setting phase of the policy cycle, another is what they actually do as government actors. Paper C investigates how the unique policy characteristics affect the investment priorities of incumbents. The starting point of the paper is that officeholders are more likely to be held accountable for their short-term performance than for the future consequences of their actions (Nordhaus 1975; Fiorina 1981; Kramer 1971). While Jacobs (2011) and others suggest that this short-term bias in electoral accountability makes it electorally risky for governments to invest in general, the paper holds that this hypothesis depends on the exact temporal structure of investments. It might be unattractive for incumbents to prioritize investments in physical and innovational capital that have a weak short-term appeal. However, due to the politically important short-term beneficiaries of educational programs, this is not the case for human capital investments. In fact, it is likely to be electorally risky for officeholders not to spend money on this investment. The paper suggests that the cross-investment variation in risks of blame attribution influences governments’ strategic timing of spending increases and their willingness to retrench.

These hypotheses are tested through quantitative analyses of spending data from 21 OECD countries between 1980 and 2013. The statistical tests support the argument. As illustrated in Figure 6.2, governments increase spending on human capital investments in election years to please the politically important short-term beneficiaries, while such electoral business cycles do not exist for physical and innovational capital investments. The models also reveal that fiscal pressure makes incumbents cut back on physical and innovational capital expenditures, but not on human capital spending. Together, these results therefore underscore the importance of variation in temporal structure for government investment priorities: When investments not only produce long-term growth returns but also have appealing short-term benefits, governments are much more strategic about the timing of spending decisions and avoid retrenchment even when the fiscal environment requires it. Investments without such short-term appeal seem to be much less of a priority for officeholders. Spending on these investments does not follow the electoral calendar, and incumbents appear ready to retrench them under budgetary pressure.

More generally, the findings thus corroborate the idea that government investment decisions are often guided by short-term considerations. However, in contrast to common belief, such short-term bias in policy decision-making does not per se lead to fewer investments in the future. If these pro-
grams have appealing consumption benefits, as in the case of human capital investments, the opposite scenario might in fact be more likely.

Figure 6.2 The effects of fiscal pressure and elections on investment spending

Now, an interesting question in this regard concerns the role of investments’ growth component. Do the results in Paper C imply that the long-term growth effects are of no importance for incumbents’ investment behavior at all? No, in general, such a strong conclusion seems too deterministic. The findings do indicate that officeholders have a tendency to make decisions about investments based on short-term rather than long-term imperatives. However, they do not necessarily suggest that future growth returns never motivate government behavior. Perhaps, a more realistic conclusion is that the long term is a ‘political luxury good’ for incumbents. Once core parties get into government, they have an interest in securing the long-term sustainability of the economy as highlighted in Papers A and B, and they might also sometimes prioritize investments because of their growth effects. However, pressure to deliver a good record in the short run means that such long-term concerns are neglected by incumbents most of the time. The concluding chapter elaborates further on this point and discusses conditions under which governments might have better opportunities to pursue the long run.
Government investments stand out from other policy areas with a distinct temporal structure and an ability to generate substantial growth returns to society. Yet, so far, existing accounts of investment politics have paid surprisingly little attention to these unique features and instead concentrated on a redistributive policy trait that also characterizes many other public programs. This has led to the common belief that investment politics unfolds like the standard state-market conflict we observe on traditional redistributive policies. The arguments presented in this dissertation challenge this view. Through the development of a supply-side theory that allows for the influence of policy-specific factors, the dissertation has argued that the role of investments’ temporal configuration and growth effects has to be incorporated if one wants to fully understand political dynamics in these policy domains.

The theoretical link between the unique traits of investments and political priorities was developed in this summary report and in three individual papers. Based on analyses of party manifesto data, Paper A documented that the long-term growth returns incentivize parties with high office and vote aspirations to push for more investments in the agenda-setting stage of the policy process. Paper B also analyzed party priorities in this phase of the policy cycle, but used more fine-grained CAP data to investigate differences between individual investment programs. A central finding that emerged from this exercise was that variation in temporal structure makes human capital investments much more salient on the party political agenda than other investments. Finally, Paper C scrutinized the priorities of governments and demonstrated that the cross-investment variation in policy structure highlighted in Paper B also matters for incumbents’ spending decisions. Together, the conducted empirical analyses therefore support the central argument of the dissertation; namely that investments’ unique policy characteristics influence political priorities and lead to distinct political dynamics that cannot simply be explained with reference to state-market ideology and redistributive imperatives. The following sections will elaborate on the implications of these findings and discuss potential routes for future research.
7.1 Implications for the CPE literature

What are the implications of the findings for the CPE literature? First of all, the conclusions of the dissertation challenge the idea that a single best model of politics exists. Comparative political economists, and in particular partisan scholars, often start out from the assumption that political debates are driven by the same underlying ideological conflict in all policy areas. This means that policy-specific factors are discounted a priori and cross-program differences are reduced to anomalies that are less relevant for politics. The findings of this dissertation warn against such a one-size-fits-all approach to the study of political economies. They document that one has to actively incorporate unique policy traits into the analytical framework in order to fully understand the incentives that drive political actors and ultimately shape policy output. The dissertation demonstrates this point for investment policies; however, there is no reason to believe that it is less relevant for the analysis of other socio-economic policy domains. A stronger focus on cross-policy differences and unique policy attributes in the CPE literature thus seems warranted.

The dissertation also helps to nuance the current understanding of parties’ role in the policy process. As detailed in Chapters 3 and 4, partisan models approach politics from a demand-side perspective. This involves the assumption that political parties operate as faithful representatives of specific social groups and almost always stay loyal to ideological goals. The picture that emerged from the findings in the dissertation challenges this structural view of party behavior and instead points to a much more proactive and independent role of these political organizations. Rather than simply serving as ‘transmission belts’ that transform socio-structural conflicts into policy output, parties appear surprisingly committed to the pursuit of their own strategic interests in vote maximization and office participation, at least when it comes to investment politics. The dissertation thereby highlights parties’ own strategic agency as a central driver for politics and suggests that CPE scholars go beyond a purely structural conceptualization of the voter-party linkage.

Putting stronger emphasis on agency rather than structure speaks to the question of how politics unfold more generally, but it also relates to the specific question of how politics matter for policy. Currently within the CPE literature, political effects on policy tend to be equated with the effects of ideology. The central debate is therefore typically one between partisan scholars arguing that ‘politics matters’ and others pointing to the constraining effects of globalization, producer interests, and institutional complementarities (e.g. Soskice 1999; Hall and Soskice 2001; Iversen 2005; Schäfer and Streeck...
The supply-side theory applied in this dissertation also insists that ‘politics matters’ and corroborates the recent call for an ‘electoral turn’ in the literature by Beramendi et al. (2015: 4). However, in contrast to the partisan approach, political effects in a supply-side theory are driven by parties’ strategic incentives to politicize and avoid blame instead of ideological interest representation. By adding a supply-side perspective to the CPE literature, the dissertation thus highlights an alternative way in which politics matters within the realms of socio-economic policy-making.

Last, but not least, Papers A and B offered new insights into party competition and agenda-setting dynamics that so far have received little attention among political economists. These investigations not only allowed us to get a richer understanding of what drives party priorities in general, but also furthered our knowledge of the political context in which governments have to make decisions. In particular, it was highlighted that systemic party political attention increases incumbents’ risk of getting blamed for a poor investment performance. More generally, this illustrates that government participation not only creates opportunities to pursue own policy priorities for parties, but also entails a policy responsibility that voters and the opposition can hold incumbents directly accountable for. A complete understanding of government behavior therefore requires that CPE scholars move beyond a narrow focus on ‘who governs’ and start to acknowledge the influence of agenda setting dynamics for executive decision-making (Seeberg 2013; Seeberg and Jensen 2015).

7.2 Suggestions for future research

As part of this concluding chapter, it is also relevant to highlight some limitations of the dissertation’s analytical scope and potential ways in which future research can strengthen our knowledge of investment politics even further. One route for new research could be to investigate whether institutional or political factors condition governments’ opportunities to pursue the long run. As Paper C illustrates, a short-term bias in electoral accountability appears to make government behavior less future-oriented. However, we also know that incumbents’ risk of blame attribution varies quite substantially across countries. In particular, several studies show that institutional fragmentation and a complex decision-making process with many actors involved diffuse policy responsibility markedly (e.g. Pierson 1994; Powell and Whitten 1993; Duch and Stevenson 2008; Weaver and Rockman 1993; Jensen and Mortensen 2014). Following this logic, it could be that officeholders are more willing to pursue investments’ long-term growth effects in countries characterized by high institutional fragmentation. In such a context,
voters would generally have a harder time holding incumbents accountable for the short-term costs of investing, which could make long-term imperatives more decisive for executive action. Alternatively, one might also imagine that governments with larger seat majorities or incumbents confronted with less voter volatility would be more willing to accept short-term electoral pain to reap larger long-term gains. For instance, Immergut and Abou-Chadi (2014) show that such factors affect governments’ willingness to engage in unpopular pension reforms (see also Jacobs 2011: 45).

Moreover, the dissertation has focused on party competition dynamics and government behavior, while lack of data (in particular for investments in innovational and physical capital) has prevented an investigation of the voter level. Collecting such data on voters’ investment preferences would, however, surely provide a foundation for interesting new insights. One avenue to pursue in this regard could be to test whether voters’ support for investments depends on the type of policy frames they are exposed to. Recently, Marx and Schumacher (2016) have shown that elite framing moderates electoral support for welfare state retrenchment. In a similar vein, it might be that voters’ investment preferences are influenced by which of the policy characteristics they are presented with. For instance, some voters might be more interested in investments if the redistributive component is emphasized, while a growth frame would trigger other parts of the electorate. Such a framing study would thus allow us to get a better understanding of how policy structure affects voter preferences and how much leeway parties generally have in terms of manipulating voters.

Finally, in regard to research design, the dissertation has followed the standard practice in the CPE literature and relied on quantitative empirical analyses in large-n settings. However, it would surely be relevant also to test the arguments using a qualitative approach that builds on case studies. While generalizability is lower, case studies generate more certainty about the exact linking mechanisms and would make us more confident in regard to which aspects of investments motivate political priorities. Relatedly, it could also be interesting to use more fine-grained data for a smaller set of countries. For instance, such a setup might make it possible to use budget appropriation data that, some argue, capture government priorities better than actual spending (Wlezien and Soroka 2003). Likewise, the data on executive speeches that are increasingly made publicly available by the CAP research team also constitute an interesting alternative (Mortensen et al. 2011).
7.3 Public investments and democracy: an impossible match?

Returning to the questions posed in the introduction, a final point that may be worth discussing is what the findings in the dissertation tell us about the prospects for seeing new public investments in Western democracies. Does the unique policy structure imply that democracy and public investment programs are an unlikely or even impossible combination in a world of harsh realpolitik? Well, in some regards, the results do point towards a rather pessimistic conclusion. It seems that politicians often are more interested in the next election than in the next generation, and as a consequence, the forces of democracy can work as a persistent hindrance for the expansion of new public investments. This was documented several times throughout the dissertation. In the analyses of the agenda-setting stage, we saw that parties are reluctant to address and prioritize investment policies when such programs mainly produce benefits to voters in the distant future. Investigations of the executive decision-making process also indicated that governments tend to behave shortsighted and make investment decisions on the basis of reelection interests rather than considerations about what benefits the future.

On the other hand, parts of the analyses also provided some reasons for optimism. First of all, we found empirical evidence suggesting that the focus on investments in core parties’ policy programs in part are motivated by a long-term interest in a sustainable economy. Not necessarily out of altruism, but because parties close to the political core anticipate future government responsibility and therefore have more political incentives to prioritize the future. As discussed above, this gives hope to the idea that these parties might behave less shortsighted as officeholders if institutional settings protect them sufficiently against short-term blame or if they enjoy enough electoral safety. Maybe even more importantly, the analyses revealed that a short-term bias in politics does not always imply that investments are unattractive for parties to prioritize. The reason is that some investments actually produce fairly appealing short-term benefits that mitigate the temporal challenge confronting politicians. In particular, we saw that the strong short-term consumption appeal of human capital investments make these policies a much higher political priority than other investments, both in the agenda-setting phase and in the executive branch. So, without neglecting that political shortsightedness to some extent is a hindrance for public investment efforts, the findings in the dissertation do leave room for some optimism, in particular for investment programs directed towards human capital formation.


English summary

Public investments in education, research, and infrastructure stand out from other policy areas in two central ways. First of all, they have a growth component. While economists generally view government expenditures as a hindrance for economic growth, public investments tend to be characterized as ‘productive’ programs that generate a net contribution to the total economy. Second, these initiatives that foster new skills, more innovation, and better transportation facilities have a unique temporal structure. Investment programs require funding right away, but their many growth returns only show up in the long run. Thus, politicians have to impose immediate costs on voters and accept short-term electoral pain before they can claim credit for investments’ substantial long-term gains. This dissertation investigates how these two unique policy characteristics affect the politics of investment.

In doing so, the dissertation addresses a long-standing omission in the literature on investment politics. Surprisingly, most existing studies tend to ignore the unique aspects of investments and instead concentrate on a policy trait that also characterizes many other programs. They focus on the fact that public investments are tax-financed and increase the size of the government. As a consequence, scholars expect the politics of investment to unfold as a classic state-market conflict between the Left and the Right.

The dissertation challenges this view and argues that the unique policy characteristics of investments generate a unique kind of politics that cannot simply be reduced to an ideological struggle over the role of government in markets. This argument is put forward in this summary report as well as in three single-authored papers. The first two papers study the agenda-setting stage of the policy process and investigate why parties prioritize public investments in their manifestos. They make two central contributions. First, the analyses show that aspirations to office and ambitions to maximize votes, and not only ideological objectives, affect which parties push investments on the political agenda. Office and vote aspirations are found to matter because they incentivize parties to use the growth returns of investments as strategic tools in politics. This finding therefore underlines that cross-party differences in stated investment priorities are not only a function of ideological positions but also a consequence of political incentives related to investments’ growth component.

Second, the studies point to differences between individual investment programs that existing studies so far have overlooked. In particular, the empirical investigations show that public investments in human capital generally receive much more party political attention than other investments. The
reason is that education programs not only lead to long-term growth but also produce a set of immediate consumption benefits with which parties can appeal directly to voters in the short run. This illustrates that investments have different temporal structures and that such cross-investment variation in policy structure influences parties’ incentives to politicize these policies.

The third paper focuses on the executive decision-making stage of the policy process and investigates under what conditions governments actually spend public money on investments. While recent contributions suggest that a short-term bias in electoral accountability makes incumbents reluctant to invest in general, the paper documents that this hypothesis depends on the exact temporal structure of investments. Following the findings in the other papers, human capital investments that not only deliver long-term growth but also produce appealing short-term benefits are found to be a higher priority for officeholders than investments with a more pronounced temporal mismatch between costs and benefits. All in all, the papers thus support the central argument of the dissertation by showing that the unique policy characteristics of public investments have a substantial impact on political priorities and generate a unique kind of politics that cannot simply be reduced to a classic state-market conflict.
Offentlige investeringer i uddannelse, forskning og infrastruktur adskiller sig fra andre politikområder på to måder. For det første har de en vækstkomponent. Mens økonomer generelt betragter offentlige udgifter som en hindring for økonomisk aktivitet, fremhæves investeringsprogrammer omvendt som produktive initiativer, der skaber et nettobidrag til den samlede økonomi. Udover at være vækstskabende udmærker investeringer sig ved at have en helt særlig temporal struktur. Offentlige investeringsprogrammer kræver finansiering fra dag et, men deres positive effekter på økonomien viser sig først efter mange år. Således er politikere tvunget til at acceptere omkostninger på den kortebane, før de kan nyde godt af de mange langsigtede vækstgevinster. Denne afhandling undersøger, hvordan disse to unikke policykarakteristika påvirker politikeres prioriteter.

Dermed adresseres en lidt overraskende udeladelse i den eksisterende litteratur om investeringspolitik. Gennemgår man denne, viser det sig nemlig, at tidtidige studier næsten ikke forholder sig til investeringers særlige egenskaber. I stedet fokuserer de som oftest på et karaktertræk, der også kendtegner mange andre politikområder, nemlig at investeringer er skattefinansierede og derfor øger statens samlede størrelse i markedet. Dette analytiske fokus har medført, at investeringspolitik generelt forventes at udspille sig som en klassisk økonomisk konflikt mellem højre- og venstreorienterede og dermed ikke adskiller sig nævneværdigt fra logikken på mere traditionelle velfærdsområder.

Afhandlingen udfordrer denne gængse påstand og argumenterer i stedet for, at de unikke karaktertræk ved investeringer skaber en særlig politisk dynamik, som ikke blot kan forklares som en ideologisk kamp om statens rolle i markedet. Dette argument fremføres i denne sammenfatning såvel som i tre selvstændige artikler. De to første artikler fokuserer på dagsordenfastsættelsesfasen i den politiske proces og undersøger, hvorfor partier prioriterer investeringer i deres politikprogrammer. Studierne viser for det første, at ønsker om stemmemaksimering og regeringsdeltagelse, og ikke blot partiideologi, er afgørende for, hvilke partier der er med til at sætte offentlige investeringer på den politiske dagsorden. Begge motiver spiller en rolle, fordi de øger partiers incitamenter til at anvende investeringers langsigtede vækstefekter som strategiske redskaber i den politiske konkurrence. Dette resultat viser således, at forskelle i partiers investeringsprioriteter ikke blot skyldes ideologiske uenigheder men også er en direkte konsekvens af de politiske incitamenter, som investeringers vækstkomponent skaber.
For det andet peger studierne på interessante forskelle på tværs af specifikke investeringsprogrammer. Særligt viser resultaterne, at offentlige investeringer i humankapital generelt er genstand for meget mere partipolitisk opmærksomhed end andre typer investeringer. Dette mønster skyldes, at uddannelsesprogrammer ikke kun skaber langsiget vækst men også genererer kortsigtede forbrugsfordele som partier appellerer til vælgerne med på den korte bane. Med andre ord varierer investerings temporal struktur, hvilket medfører, at nogle investeringsprogrammer er mere attraktive for partier at politisere end andre.