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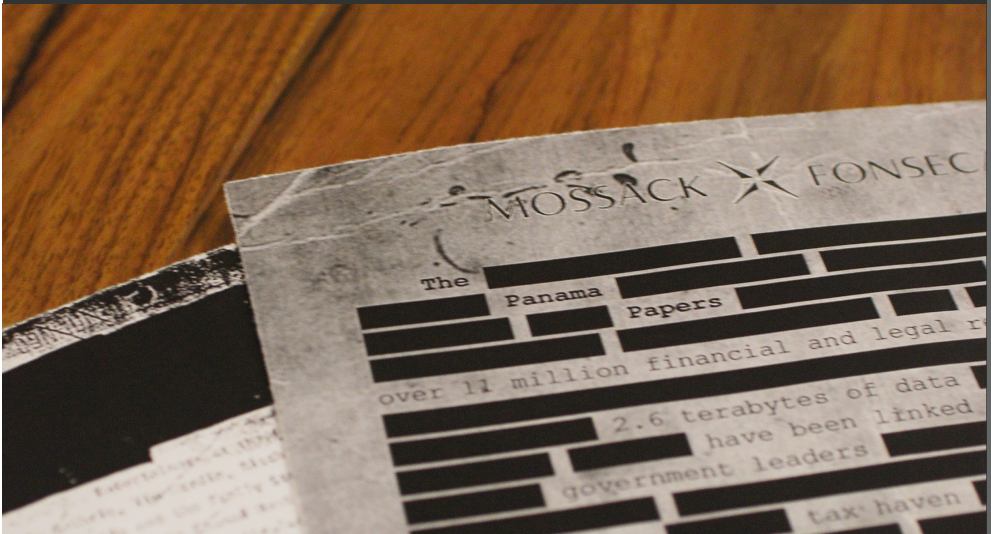
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GLOBALIZATION CONSTRAINTS: LEFTIST GOVERNMENTS, DEMOCRACY, AND HEALTH EXPENDITURE IN LATIN AMERICA FROM 1976 TO 2000

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POPULISM OR POPULAR AUTHORITARIANISM: EXPLAINING THE LATIN AMERICAN LEFT'S AUTHORITARIAN BEHAVIOR

Samuel Maynard



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POPULISM OR POPULAR AUTHORITARIANISM: EXPLAINING THE LATIN AMERICAN LEFT'S AUTHORITARIAN BEHAVIOR

SAMUEL MAYNARD

Introduction

The “rise of the Latin American left” has undoubtedly characterized the region’s politics since the turn of the twenty-first century. “Neo-socialist” leaders in the South American continent have obtained, and consistently held onto, presidential power over the last decade. Many observers have drawn comparisons between this group of leaders and the old-guard Latin American populists in the mid-twentieth century that also galvanized public appeal with rhetoric of equality and inclusiveness. Superficially, one can see these comparisons as logical. Politicians such as Hugo Chavez in Venezuela or Nestor and Cristina Kirchner in Argentina routinely invoke the language and style of figures like Juan Perón in the 1930s-40s. Kirchnerismo and Chavismo draw a direct line to the candidates in ways programmatic appeals do not, just as Peronism has done for decades. This characteristic, personalism, is regarded as essential to the concept of populism.¹ Without a direct link to the voters, a populist leader will be checked by institutional constraints that will limit the amount of influence his or her personality will have on the political system in total.

However, this application of populism is quite malleable and ignores some historical features that make “classical populism” of the mid-twentieth century different from what we are observing (perhaps at its end) today. As a political device, populism has historically been a democratizing force, notably incorporating organized labor into formal politics by implementing policies that change the basis of national economies. ²The transition from agro-economies to ones primarily based on exports and protected industries created a need for workers that in turn legitimized their political demands as citizens. While contemporary “post-populists” may rely on rhetoric that seeks to recapture this inclusive sentiment, their behavior—particularly as related to the new left’s economic policy—seems to suggest that the expansion of rights is not necessarily a priority. New left governments rely on a mix of economic approaches that include state protectionism and economic orthodoxy, even at the expense of the working

1 Edward L. Gibson, “The Populist Road to Market Reform: Policy and Electoral Coalitions in Mexico and Argentina,” *World Politics* 49, no. 3 (1997): 342-345.

2 Hector E. Schamis, “From Perón to the Kirchners: ‘Populism’ in Argentine Politics,” in Cynthia J. Arnson and Carlos de la Torre (eds.), *Latin American Populism in the Twenty-First Century*, (Washington: Woodrow Wilson Center Press, 2013): 155.

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class, who are often cited as the biggest constituents of these governments.³

In addition to deviating from populism's primary economic goals, the new left governments have severely curtailed civil rights in seeking to preserve political power. In Argentina, questionable laws have been passed that restrict the freedom of speech and press, warranting a "partly free" press rating from Freedom House in 2015. Also in 2015, the death of prosecutor Alberto Nisman sparked massive protests against the Argentinian government. The government is still suspected to have covered up elements of his death in order to prevent the discovery of evidence that supports the conspiracy concerning the bombing of a Jewish community center in Buenos Aires in 1994.⁴ Similarly, in Venezuela, the Chavismo government has openly jailed political opponents, silenced elements of the press, and publicly attacked its critics through rhetoric and national addresses.⁵ These tactics are echoed throughout the region as well, with Rafael Correa in Ecuador, and to a lesser extent, Evo Morales in Bolivia.

With these developments in mind, one can begin to associate traits of these governments not with populism, as it has been historically conceptualized, but with authoritarianism. While the new left administration is elected democratically, once in office, they utilize forms of social control reminiscent of autocrats throughout the twentieth century, albeit with less violence. This paper will argue that new left governments, once elected, transform into popular authoritarian governments with the goal of power preservation rather than social equity. These governments utilize mass public support to consolidate executive rule and limit political competition. This has led to nondemocratic outcomes as well as a general rollback on certain rights essential to modern democracies.

To illustrate this argument, this paper will first define populism by its adherence to import-substitution-industrialization (ISI) as a state driven economic model. The political economy of populism must be considered anchored to the concept to avoid any misinterpretations on the part of scholars. Second, authoritarianism as classically defined by Juan Linz will be used to draw a comparison to regimes of the past and the strategies and goals of the new left governments—primarily, those of Argentina and Venezuela. "Neo-populism," "post-populism," or any other diminished subtype simply conflates characteristics of populism (I.E., personalistic leader, weak institutionalization, etc.) with the concept as a whole. While certain traits may be necessary for a populist system, they can appear in a host of political regime-types. As its central aim, this paper seeks to make the case for a more accountable definition of democracy, moving beyond elections as a minimum threshold. At the risk of implementing a more activist application of political science, scholars should be definitive in labeling states autocratic when they engage in tactics clearly repressive to the rights of their citizens.

In Defense of Structuralism: ISI as a Conceptual Anchor for Populism

Populism is an elusive term within comparative politics. Two main approaches have emerged as a way to characterize the academic debate on Latin American populism. First, there is the predominant use of populism that treats the term as historically transient, meaning it can appear in multiple points in

3 Robert R. Kaufman, "The Political Left, the Export Boom, and the Populist Temptation," in Steven Levitsky and Kenneth M. Roberts (eds.) *The Resurgence of the Latin American Left*, (Baltimore: Johns Hopkins University Press, 2011): 115.

4 BBC, "Who Killed Alberto Nisman?" 1994.

5 Kirk Hawkins, "Populism in Venezuela: the Rise of Chavismo," *Third World Quarterly* 24, no. 6 (2003): 1143.

time within different political or economic contexts. Populism in this sense is detached from any timeline or ideological force, giving it a wide range of conceptual flexibility.⁶ From this approach, many variants of populism have emerged. In the early 1990s, “neopopulism” was used to describe personalistic leaders who ushered in the neoliberal Washington Consensus, such as Carlos Menem in Argentina, Alberto Fujimori in Peru, and to some extent, Fernando Collor de Mello in Brazil.⁷ After this came the contemporary “radical” or “post-populism,” which describes leaders that rose on the promise of widespread leftist platforms.

This approach confuses and mischaracterizes populism in two key respects. First, and most importantly, it assumes because these leaders rising to power all operate without a cohesive party platform, they are automatically populists. The cases of so-called neo-populism are often stories of candidates benefiting from poorly institutionalized party structures, rather than using their charisma to win national elections. Arguably, Menem would not have been able to implement widespread neoliberal reforms in Argentina if the Justicialist Party (PJ) had sustained its ties to organized labor rather than concentrating political resources in the provincial governorships.⁸ Likewise, Fujimori capitalized on the crippling of APRA after Peru’s economic crisis in the 1980s and the rise of the Shining Path insurgency in order to come to power. In the context of weak or fluid institutions, charisma and personalism only appear to define these administrations.

Second, this approach points to spurious factors in order to associate cross-chronological presidencies and classify them simultaneously as populist. César Montúfar, in his analysis, links all three “eras” of populism by their capacity to deinstitutionalize portions of the state in order to circumvent governing constraints.⁹ However, the fact those executives could subsequently break down elements of the state that check power is not necessarily indicative of populism. Other theories can explain this, such as Guillermo O’Donnell’s delegative democracy, where societies entrust presidents with the power to govern with low levels of “vertical accountability.”¹⁰ Also, unlike classical populist movements in the 1930s-40s, mobilization in “neopopulist” or “post-populist” systems has been relatively low, which is conducive to delegative democracy, as Enrique Peruzzotti explains:

The idea of delegative democracy was developed to describe a particular form of conceiving and exercising democratic power that leads to the establishment of a particular subtype

6 Cynthia J. Arnson and Carlos de la Torre, “ Conclusion: The Meaning and Future of Latin American Populism,” in *Latin American Populism in the Twenty-First Century*, (Washington: Woodrow Wilson Center Press, 2013): 353.

7 See Kurt Weyland, “ Neopopulism and Neoliberalism in Latin America: Unexpected Affinities,” *Studies in Comparative International Development* 31, no. 3 (1996): 3-7.

8 For a detailed analysis of the Peronist renovation, see Steven Levitsky, *Transforming Labor-Based Parties in Latin America: Argentine Peronism in Comparative Perspective*, (Cambridge: Cambridge University Press, 2003).

9 César Montúfar, “ Rafael Correa and His Plebiscitary Citizens’ Revolution,” in Cynthia J. Arnson and Carlos de la Torre (eds.) *Latin American Populism in the Twenty-First Century*, (Washington: Woodrow Wilson Center Press, 2013): 296-297.

10 See Guillermo O’ Donnell, “ Delegative Democracy,” *Journal of Democracy* 5, no. 1 (1994): 55-61.

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of polyarchy. Delegative democracies, O'Donnell argues, represent a degraded version of "polyarchy" whereby citizens can regularly exercise their right to vote in relatively free and fair elections but see their civic rights repeatedly curtailed by the authoritarian behavior of public authorities...Far from promoting the politicization and mobilization of popular sectors, O'Donnell argues that delegative regimes thrive in a political culture characterized by a significant degree of political apathy.¹¹

Without an activated portion of the citizenry to usher into the political arena, what some may confuse as populism is actually hyperpresidential politics. This directly conflicts with classical populism's political aim, which sought to activate labor as a popular base in order to expand the electorate and successfully implement statist economic policies that would draw working class support.

The second approach relevant to the literature treats populism in accordance to its structural emergence and the historical consequences it has produced. Scholars on this end link populism with its original implementation of an ISI economic agenda. Schamis (2013) argues once ISI disappeared as a sufficient economic strategy and was replaced by orthodox policies in the 1980s-1990s, the "urban coalitions that had sustained populism" ceased to be determinant political actors.¹² Populism's inherent link with ISI operates by a general sequence that involves the mass incorporation of historically subordinated sectors of society into politics amidst a backdrop of economic modernization.¹³

The political economy of populism can be seen in two phases: the "boom phase" and the "bust phase." In their initial years, populist governments rose to political prominence on the promise that they would initiate urban industrialization, which in turn would expand domestic economies. To do this, governments implemented statist policies such as import controls, high trade tariffs, exchange-rate appreciation, and other mechanisms meant to aid public consumption and increase the production of domestic goods.¹⁴ During this phase, economies grew and the demand for industrial labor led to an increase in wages, due to the state's adherence to a generally fixed exchange rate to stem an uptick in inflation.

However, in order to fuel these new industries, countries like Argentina and Brazil were forced to borrow large sums of money to ship the supplies necessary to diversify their production. Argentina, for example, had an agricultural based economy by the mid-twentieth century. Therefore, it had none of the technology necessary to manufacture relatively simple consumer goods. The bust cycle occurred when government reserves reached such low levels that the state could not sustain its balance of payments. This culminated in an exchange-rate devaluation that plummeted wages and sent countries into inflationary crises.

Coinciding with this ISI sequence was the corporatist organization of labor that "coordinated"

11 Enrique Peruzzotti, "Populism in Democratic Times: Populism, Representative Democracy, and the Debate on Democratic Deepening," in Cynthia J. Arnson and Carlos de la Torre (eds.) *Latin American Populism in the Twenty-First Century*, (Washington: Woodrow Wilson Center Press, 2013): 78-79.

12 Schamis, 2013, 177.

13 *Ibid.*, 151.

14 *Ibid.*, 152.

economic development.¹⁵ Unions, labor bureaus, and state business enterprises were established under the banner of industrialization. This system was hierarchical, with the state acting as the umbrella for national production and commerce. Thus, when ISI produced an economic crisis, this system went into shock as well. General strikes and mass demonstrations would paralyze the economy. ISI's bust cycle ended in bureaucratic authoritarian takeovers in several South American countries.¹⁶

This conceptualization of populism is preferable because it points out the unavoidable differences in "classical populism" and subsequent "reincarnations." First, under the structural approach, populism is a democratizing force. Subordinate groups that were previously barred from formal institutions under the law were now recognized as full citizens. Additionally, social and material rights were expanded by policies that guaranteed living wages and job protection. For example, by 1945 Argentine women were protected under federally mandated minimum wage legislation and by 1947 were enfranchised. Both of these pieces of legislation were products of the first Peronist administration.¹⁷ Populism's expansion of rights contributed to a more democratic political arena for those previously excluded under an elite-centered political economy.

Second, the macroeconomic differences between classical populism and its reincarnations weaken any comparative ties. In the late 1980s-1990s, "neopopulists" administered market-oriented growth policies that reverted back to the exclusionary principles classical populism sought to override. Whether or not political rhetoric acknowledged this, the working classes and their demands needed to be muted in order for the Washington Consensus to be implemented. Menem, when running for the Argentine presidency in 1989, campaigned on a traditional Peronist platform by promising across the board wage increases for unions. Once in office, this plan was never implemented. Instead, neoliberal reforms were pushed, to the aggravation of labor unions.¹⁸

This "bait and switch" led to an overall reduction of rights necessary to implement many of these policies. Menem, as well as Fujimori in Peru, frequently engaged in democratic oversteps that threatened the autonomy of each country's legislature and Supreme Court.¹⁹ Similarly, this can be seen in both presidents' successful attempt to liquidate presidential term limits via constitutional amendment. "Post-populist" leaders in the current century have attempted to abolish presidential term limits as well with mixed results. Hugo Chavez tried and failed to amend the constitution in 2007, but eventually eliminated term limits in 2009; Cristina Kirchner failed to secure this result in 2013. Meanwhile, Evo Morales was sworn into his third presidential term in January of 2015.

The new left's hyperpresidentialist streak serves to weaken democratic constraints through "wolf in sheep's clothing" maneuvers. Although democratic means are used to achieve greater levels of

15 *Ibid.*, 156.

16 See Guillermo O' Donnell, *Modernization and Bureaucratic Authoritarianism*, (Berkeley: University of California Press, 1973): 1-8, 85-102.

17 Nancy Caro Hollander, "Si Evita Viviera," *Latin American Perspectives* 1, no. 3 (1974): 45.

18 Gibson, 1997, 354.

19 See Steven Levitsky and María Victoria Murillo, *Argentine Democracy: The Politics of Institutional Weakness*, (University Park: Penn State Press, 2005): 1-21; also Kenneth M. Roberts, "Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case," *World Politics* 48, no. 1 (1995): 92.

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power, social choice is manipulated to create an “impossible game” scenario for voters. In Venezuela, Chavez routinely utilizes referendums as a way to maintain an egalitarian façade. However, the state—meaning the Chavistas—is the primary welfare provider for impoverished Venezuelans. By destabilizing the Chavez’s electoral prospects, working class Venezuelans risk a reduction in this resource, or even its complete loss. Therefore, voters are forced to choose between compromising their democratic rights to lessen financial risk, or denying Chavez a third term and see possible cuts in welfare programs.²⁰ This situation strips a citizenry of its capacity to make unrestricted democratic decisions, and therefore should be seen as nondemocratic—further removing the new left from classical populism.

Without an empirical anchor, populism has contributed to more confusion than clarification in Latin American comparative politics. Scholars who opt to apply a transient definition of populism too often ignore historical differences that uniquely make the concept a force for democratic expansion rather than authoritarian intervention. Unlike the 1930s-40s, contemporary leaders have governed more effectively when rights were decreased. High public mobilization has historically worked to benefit populist leaders in the initial phase of ISI. Conversely, the new left, while utilizing hyperpresidentialism, has faced obstacles at the hands of public demonstration. This clearly places Latin American presidents of the twenty-first century in a different conceptual space than those of prior decades. The next section will link the new left with Juan Linz’s definition of authoritarianism to make the case for a popular authoritarian transition over the last decade.

Latin American Authoritarianism in the Twenty-First Century

Juan Linz (1964) defines authoritarian regimes as political systems with limited, not responsible, political pluralism, without elaborate and guiding ideology, but with distinctive mentalities, without extensive nor intensive political mobilization, except at some points in their development, and in which a leader or occasionally a small group exercises power within formally ill-defined limits but actually quite predictable ones.²¹

In order to explore authoritarianism in the context of the new left, we must first understand what this definition permits within Linz’s theoretical boundaries. First, authoritarian regimes are not necessarily violent, although they have historically shown tendencies toward violence. Within this definition, authoritarian regimes are above all poorly institutionalized, which means the use of force is often erratic and subject to the nature of the regime in question.²² Authoritarian “situations” permit flexibility in the use of power, which can easily be associated with the new left over the past decade.

Second, authoritarian regimes have historically used democratic institutions to exercise and maintain power; this is not a new phenomenon, nor does it exclude countries from authoritarian

20 See Margarita Lopez Maya and Alexandra Panzarelli, “Populism, Rentierism, and Socialism in the Twenty-First-Century Case of Venezuela,” in Cynthia J. Arnsperger and Carlos de la Torre (eds.) *Latin American Populism in the Twenty-First Century*, (Washington: Woodrow Wilson Center Press, 2013): 247-261.

21 Juan J. Linz, “An Authoritarian Regime: Spain,” in Erik Allardt and Yrjö Littunen (eds.), *Cleavages, Ideologies, and Party Systems: Contributions to Comparative Political Sociology*, (Helsinki Westermarck Society, 1964): 255.

22 Juan J. Linz, *Totalitarian and Authoritarian Regimes*, (Boulder: Lynne Rienner, 2000): 160.

classifications simply because they hold elections. Armony and Schamis (2005) characterize this point in their critique on regime hybridity:

The military government that took power in Brazil in 1964 held elections throughout two decades, even allowing opposition parties to claim key governorships. The Salazar regime in Portugal had regular elections. In Franco's Spain, the members of the Cortes (parliament) were elected, albeit indirectly, as were municipal-council members. Egypt has held elections since the military coup of 1952, and Morocco has carried out national elections since the 1960s. Jordan, Kuwait, and Yemen have all held elections in the last decade or so. Suharto's New Order in Indonesia actually had a three-party system, with routine, and presumably competitive elections between 1966 and 1998.²³

Additionally, the use of certain institutional mechanisms, such as a party establishment or presidential cabinets, has actually shown to prolong the lifespan of an authoritarian regime.²⁴ For new left governments, such as the ones run by Chavez in Venezuela or Cristina Kirchner in Argentina, electoral mandates have intensified democratic oversteps in some respects. Leaders feel because they win by large margins, they have the right to further consolidate their power in the name of public approval. This was the sentiment after Chavez won his referendum in 2009 and when Cristina Kirchner won her landslide presidential victory in 2011.²⁵

Third, in accordance with Linz's theory, many new left governments have maintained limited levels of political pluralism and have sought to demobilize the public, with some exceptions during electoral cycles. Furthering this point, when mass-protests occurred, leaders have had to react in ways that damaged their public support. For example, the 2014 demonstrations in Caracas drew widespread criticism from human rights organizations against state police's use of excessive force to contain protestors.²⁶ As a result, President Nicolás Maduro was viewed negatively by nearly 60 percent of Venezuelans polled. Similarly, 2012 protests against Cristina Kirchner's handling of crime and the economy garnered tens of thousands in Buenos Aires, causing her approval rating to fall sharply.²⁷

In an effort to limit pluralism and discredit their oppositions, the Chavista and Kirchnerista governments both have histories of using national address as a means of social control to sway public perception. In 2002, after a steep drop in approval, Hugo Chavez "reacted aggressively" by holding long weekly addresses that were mandatorily aired over television and radio.²⁸ Chavez used these speeches to

23 Ariel C. Armony and Hector E. Schamis, "Babel in Democratization Studies," *Journal of Democracy* 16, no. 4 (2005): 122.

24 See Kenneth F. Greene, "The Political Economy of Authoritarian Single-Party Dominance," *Comparative Political Studies* 43, no. 7 (2010): 807-834.

25 See Ernesto Calvo and M. Victoria Murillo, "Argentina: The Persistence of Peronism," *Journal of Democracy* 23, no. 2 (2012): 148-161; also Steven Levitsky and James Loxton, "Populism and Competitive Authoritarianism in the Andes," *Democratization* 20, no. 1 (2013): 125.

26 Nathan Crooks and Corina Pons, "Amnesty Reports Dozens of Venezuela Torture Accounts," *Bloomberg Business*, [04/01/2014].

27 Reuters, 2012.

28 Hawkins, 2010, 1143.

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propagate inflammatory rhetoric and demonize elements of the press and civil society that were critical of his government. Likewise, in order to respond to “attacks on the national government,” Cristina Kirchner has similarly sought to mute criticism with her “cadena nacional” addresses.²⁹ This tactic is also heavily utilized by Ecuador’s president, Rafael Correa, in weekly town forums devoted to mocking and intimidating opponents in the press. This behavior fit directly into the confines of Linz’s definition of authoritarianism, which refers to regimes that maintain and execute power in an environment containing public sentiments.

Finally, we can see the use of “distinctive mentalities” by the new left’s rhetorical adherence to a socialist-style program. Linz explains these by stating that while “ideologies” are more broadly tied to a wider set of beliefs and assumptions, mentalities are flexible and subject to change depending on the needs of a particular regime.³⁰ For the new left, this mentality has largely been seen through rhetoric while certain elements of policy superficially address social inequalities. Leaders act conditionally in accordance with this appeal, observing political and economic strategies of both the left and right when it is most strategic.

For the Chavistas, linkages to the working class are maintained through “Bolivarian Socialism,” which in practice differs from traditional socialism, as it is historically defined. Oil revenues brought in by the nationalized *Petróleos de Venezuela* (PDVSA) largely drive the Venezuelan economy and fund mass programs implemented by the state. However, this money is distributed in a way that sustains an impoverished electorate, thus creating an almost constant majority for the PSUV over the last decade. Additionally, this strategy has enabled Chavez and his successor to control state institutions with unchecked discretion.³¹

In Argentina, both Kirchners have associated themselves with a similar brand of “neosocialism” relying on heterodox economic approaches. Since 2004, both governments have used a mixed strategy of nationalization and private investment funds in seeking to protect state revenues as well as capitalize on emerging sectors of the economy such as energy and oil. In recent years, Cristina Kirchner’s administration has looked within the private sector in order to expand profits in Argentina’s energy sector. *Yacimientos Petrolíferos Fiscales* (YPF), the country’s national oil company, has signed deals with American and Chinese petrol firms; a move echoing the sentiments of Kirchner’s neoliberal predecessors.³²

When the new left cases are compared with Juan Linz’s seminal theory on authoritarianism, there are stark parallels between the tactics used by Cold War autocrats and the elected leaders that rose to power in twenty-first century Latin America. However, there remain certain differences as well. This paper labels the new left—particularly Cristina Kirchner in Argentina and Hugo Chavez in Venezuela—as popular authoritarian mainly due to the nature of each government’s rise to power and subsequent intensification of strong-armed political rule. Essentially, because leaders were elected with a plurality of

29 Buenos Aires Herald, 2015.

30 Linz, 2000, 163.

31 Levitsky and Loxton, 2013, 109.

32 Buenos Aires Herald, 2015; Additionally, the contractual agreement between YPF and US firm Chevron was kept confidential until the Argentine Supreme Court ordered the release of the text in November, 2015, less than two weeks before the general election run-off.

the national vote, one can view their authoritarian behavior as consent-driven.

Unlike delegative democracy, this label disagrees with the idea that because candidates are elected by presumably free and fair elections, they are unable to be considered authoritarian. Rather, the consistent erosion of rights perpetrated by executives should warrant an association with authoritarian rule. When political goals align—namely, the preservation of power at the expense of democratic rights—then these administrations should be considered comparable to traditional authoritarian examples (i.e., Salazar in Portugal, or Franco in Spain). Additionally, the span of power held by each administration (15 years for Chavez, 12 years under both Néstor and Cristina Kirchner) has effectively muted democratic competition. More time in office has allowed each government to more frequently utilize tactics silencing “dissenters.”

Unlike Levitsky and Way’s *Competitive Authoritarianism* (2010), popular authoritarianism disagrees actual competition is sustained within the institutional structures of both the Argentine (for a specific duration) and Venezuelan (including present circumstances) states. Historically skewed party systems in both countries have contributed to the authoritarian behavior of Cristina Kirchner and Hugo Chavez.³³ Also, the routine court packing and weak opposition presence in national congresses have put each leader (and Chavez’s successor in the Venezuelan case) in a position to lower transaction costs when institutional oversteps are taken, as seen in Chavez’s circumvention of the Congress in amending the Constitution in 2009 and Kirchner’s nationalization of YPF in 2012 by overwhelming support from the PJ in congress. Levitsky and Way’s basis of electoral competition ignores certain institutional arrangements that allow for incumbent administrations to manipulate a political system in order to generate nondemocratic results.³⁴

As opposed to populism, popular authoritarianism better captures the goals and incentives of new left administrations. While populist governments in the 1930s-40s thrived on the expansion of political rights and created platforms to enhance vote shares, the new left suffers when pluralism and mobilization are increased. Strong-armed rule is costlier when citizens publicly protest against a particular government. Within classical populism, the leader or candidate was seen as the “solution” to unjust social policy whereas now, executives (according to critics) are seen as the cause. This perception is primarily determined by economic performance.³⁵ High inflation rates in both Argentina and Venezuela have generated increased criticism of each state’s respective government. This has amplified attacks from Kirchner (in the months preceding the election) and Maduro, whose party recently faced a midterm electoral setback.

Over the last decade, new left presidents have exhibited authoritarian characteristics. This paper argues the hegemonic use of executive power differs in a way that previous theories have treated hyperpresidentialism. Additionally, the presence of elections or other democratic institutions are not

33 For a discussion on hegemonic party structures contributing to authoritarian behavior, see Max Bader, “Hegemonic Political Parties in post-Soviet Eurasia: Towards Party-Based Authoritarianism?,” *Communist and Post-Communist Studies* 44, no. 3 (2011): 189-197.

34 See Steven Levitsky and Lucan A. Way, *Competitive Authoritarianism: Hybrid Regimes After the Cold War*, (Cambridge: Cambridge University Press, 2010).

35 See Kaufman, 2013.

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enough to consider these states, or the worst “offenders” addressed in this paper, as “democratic,” *per se*. Rather, popular authoritarianism better encapsulates these administrations by accurately describing how power is exercised at the expense of rights, leading to nondemocratic outcomes and contradicting what many of these governments claim to fully represent. The next section will characterize the rise of the Kirchners in Argentina and the Chavista movement in Venezuela to demonstrate how this popular authoritarianism has affected politics in each case.

The Rise of Popular Authoritarianism in Latin America

In the late 1990s to early 2000s, Latin America underwent a political reformation. Several countries throughout the region were in economic turmoil after the unraveling of the unsustainable Washington Consensus. Poverty rates and unemployment drastically increased while governments shuffled to contain what many analysts considered an “all-out” crisis.³⁶ Populations demanded action from their governments and in return received a swarm of leftist candidates all promising to restore social justice to these ailing societies.

In Argentina, the relatively unknown governor of the Santa Cruz province, Néstor Kirchner, won the country’s 2003 election by campaigning on a new leftist platform that promised the implementation of social welfare programs.³⁷ This strategy was largely employed through the use of executive orders, or “Necessity and Urgency Decrees” (DNU), which allowed the president to circumvent legislative approval.³⁸ In handing power over to his wife in 2007, the use of unilateral maneuvers was institutionalized within the Argentine presidency, with the Kirchners both issuing the most DNUs of any executive since the return of democracy in 1983. This has enabled both administrations to consolidate political power at the expense of horizontal institutions.

In Venezuela, a similar story unfolded. With the country’s oil-dependent economy in decline since the late 1970s, voters were quick to offer their support to Lieutenant Colonel Hugo Chavez after a failed coup attempt in 1992.³⁹ After several years in prison for the insurrection, Chavez established the Fifth Republic Movement, which acted as his own “personalistic vehicle to run for president in 1998.”⁴⁰ With widespread support, Chavez easily won the 1998 election and ascended to the Venezuelan presidency, a post he would maintain until his death in 2013. As a result of his rise, Venezuela’s longstanding mass parties, Acción Democrática (AD) and the Social Christian Party (COPEI), were largely rendered defunct (with AD maintaining a slight presence in the wake of the most recent legislative elections).

This section will breakdown each administration’s rise to power and explain specifically how authoritarian tendencies have led to nondemocratic outcomes over the last decade. In the case of

36 Renos Vakis, Jamele Rigolini, and Leonardo Lucchetti, “Left Behind: Chronic Poverty in Latin America and the Caribbean,” *World Bank* (2015): 8.

37 Christopher Wyld, “State, Society, and Markets in Argentina: The Political Economy of Neodesarrollismounder Néstor Kirchner, 2003-2007,” *Bulletin of Latin American Research* 30, no. 4 (2011): 437.

38 Steven Levitsky and María Victoria Murillo, “Argentina: From Kirchner to Kirchner,” *Journal of Democracy* 19, no. 2 (2008): 19-20.

39 Levitsky and Loxton, 2013, 123-124.

40 *Ibid.*, 124.

Argentina, we will see Kirchnerismo was ultimately unsustainable in the face of growing pressures from civil society. In Venezuela, Chavismo maintained a more outward expression of authoritarian behavior, including explicit acts of violence.

Argentina (2003-Present)

Néstor Kirchner inherited an economic disaster in winning Argentina's 2003 general election. Just prior in 2002, the Argentine economy had reached its peak GDP contraction at about 11 percent.⁴¹ The party system had effectively collapsed after Fernando de la Rúa's presidential resignation in 2001 by way of helicopter, which prompted the special election two years later. The first Kirchner administration sought to balance economic approaches with widespread statist policies—such as the “Heads of Households plan,” which provided conditional cash handouts to working class families—and economic orthodoxy that strove to integrate global trade with emerging sectors in Argentina.⁴² Initially these looked to be improving the country's macroeconomic situation. However, many economists attribute the actual success to the early-2000s commodity boom that raised the price of Argentine exports on the global market.⁴³

While in office, Néstor Kirchner contextualized strong-armed maneuvers in the plight of working class Argentines. Strong support from highly populous regions of the country provided his administration with a strong electoral mandate.⁴⁴ Excessive budgetary powers and vast controls over the national judiciary were taken to ensure executive power would be able to be used with limited restraint.⁴⁵ Additionally, in order to fund state projects, the Kirchner government imposed new provincial taxes requiring governors to hand over large portions of their budgets back to Buenos Aires. This was done with a disproportional legislative majority that essentially guaranteed Kirchner unbridled use of his executive power. In 2005, Kirchner was suspected of trying to amend the constitution in order to liquidate term limits; however, this move was blocked by small demonstrations that mobilized voters from the Radical opposition. This also prompted several other PJ governors to resist making constitutional changes in their provinces.⁴⁶

In 2007, Néstor Kirchner opted to not run for re-election, and instead relinquished the position to his wife Cristina Fernandez de Kirchner, without an internal nominations process within the PJ. Under her government, rhetoric and outright bullying of the opposition increased. In 2009, laws were passed effectively sanctioning Clarín, one of Argentina's largest media outlets that have been historically critical

41 Wylde, 2011, 437.

42 Jean Grugel and Maria Pia Riggiozzi, “The Return of the State in Argentina,” *International Affairs* 83, no. 1 (2007): 88-89.

43 See Kaufman, 2013.

44 Sebastián Etchemendy and Candelaria Garay, “Argentina: Left Populism in Comparative Perspective, 2003-2009,” in Steven Levitsky and Kenneth M. Roberts (eds.) *The Resurgence of the Latin American Left*, (Baltimore: Johns Hopkins University Press, 2013): 283.

45 See Levitsky and Murillo, 2008, 19.

46 *Ibid.*, 20.

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of Cristina Kirchner's government. Three years later, an allied Supreme Court ruled Clarín's press licenses could not be sold until further clarification from the government, a move restricting the company's business.

Cristina Kirchner's control over the economy has increased as well. Severe price controls have been implemented on agricultural goods in recent years. This caused a rift between the central government and provincial farmers. Additionally, a dollar clamp has been imposed for several years restricting the flow of dollars out of Argentine borders. This also dictates how citizens spend their money overseas and penalizes certain transactions on credit and debit purchases with taxes.

This style of governance has been maintained through political dysfunction, aided by party clientelism and rhetorical attacks on elements of the opposition. Clientelism has been an effective tool of contemporary Peronist politics.⁴⁷ In maintaining working class strongholds that guarantee major vote shares, the PJ can cut into opposing portions of the electorate more effectively. Also, this has insulated the Kirchners from political dissent within their own base, as this allows them to use "authoritarian tactics" more effectively and with limited reproach. By garnering mass segments of the population, popular authoritarianism (by consent) has been a relatively effective strategy since 2003. Essentially, the executive has the ability to implement laws manipulating portions of the electorate, which then reinforces democratic oversteps alongside a fractured and weak legislative opposition.⁴⁸

In the most recent electoral result, this system seems to have broken down, with key Peronist provinces voting in favor of the liberal Democratic Proposal (PRO). While popular authoritarianism under the Kirchners was sustained due to relatively prosperous economic conditions, the recent increase in inflation and adverse growth prospects have made this strategy less effective, warranting an optimistic forecast for democracy at least for the next few years.

Hugo Chavez rose to power in 1998 by targeting what he claimed to be corrupt elements of the Venezuelan political establishment. By claiming an outsider status, he offered an alternative to what many working class voters believed was outdated for their country.⁴⁹ Upon claiming federal office, the Chavista government implemented what he claimed to be a legal coup that shut down the legislature, purged the Supreme Court, and appointed a new elections commission allied to the new regime.⁵⁰ A new constitution was approved via referendum, allowing Chavez to govern alongside no viable opposition.

Throughout the last decade, the Chavistas used authoritarian tactics to eliminate any dissent with little push back from the public. In 2003, the national elections commission stalled an opposition referendum initiative for over a year, allowing Chavez to utilize public attacks and improve public support.⁵¹ Likewise, after the referendum failed, names of those who voted in favor were compiled on a list to be punished and blacklisted. The Chavistas' unlimited access to political and monetary resources

47 Valeria Brusco, Marcelo Nazareno, and Susan C. Stokes, "Vote Buying in Argentina," *Latin American Research Review* 39, no. 2 (2004): 69.

48 See Hector E. Schamis, "A 'Left Turn' in Latin America? Populism, Socialism, and Democratic Institutions," *Journal of Democracy* 17, no. 4 (2006): 28.

49 Levitsky and Loxton, 2013, 124-125.

50 *Ibid.*

51 *Ibid.*, 125-126.

made their attacks so effective that by 2006 the opposition had virtually no chance of defeating them through the vote.⁵²

With Chavez's successful referendum to eliminate term limits, popular authoritarianism in Venezuela rose to new levels. Similar to the Argentine case, vote buying has been a widely utilized tactic of the Chavistas over the last decade. Additionally, they used violence and physical repression as well, notably in the form of neighborhood brigades, intimidating voters into supporting the PSUV. Combining this with open verbal assault and indiscriminate arrests of activists and politicians, the Chavistas have created a culture of fear. Yet, Chavez, with high vote margins, has continuously invoked his electoral mandate to commit these oversteps on behalf of the public, and in effect consolidates his power.

Conclusion

The "neosocialist" rise of the new left has given way to a variant of authoritarianism over the course of the last decade. Leaders throughout the region have repeatedly ignored horizontal institutions in order to consolidate executive power in a way demanding public support. This has been reinforced by high vote margins through clientelist manipulation, outward attacks on the opposition, and severely unstable party systems. However, in both the Argentine and Venezuelan cases, optimism looms. Recent elections in both countries have shown cooperation from the Kirchnerista and Chavista camps. While popular authoritarianism allowed these governments to maintain power for long periods of time, it has been contingent on public tolerance mainly driven by economic performance. With liberal forces rising gaining ground along with downward economic prospects, heavy-handed executive rule will likely be more costly in the immediate future.

⁵²Javier Corrales and Michael Penfold, "Venezuela: Crowding Out the Opposition," *Journal of Democracy* 18, no. 2 (2007): 106.

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EYES IN THE SKY: AN EXAMINATION INTO U.S. AND ISRAELI UAV PROLIFERATION

ERIC LENIER IVES

Since the signing of the Missile Treaty Control Regime in 1987, Israel and the United States have accounted for over three quarters of the world's UAV exports. Several factors influence the export and import of Israeli and U.S. unmanned aerial vehicles (UAVs). Unlike previous discourse about the legal and ethical implications of UAVs, this paper uses multivariable regression analysis, UAV transfer data from the Stockholm International Peace Research Institute (SIPRI) and data on UN voting affinity, military capability, Polity, domestic stability, and the incidence of soldier and terrorism casualties. Results suggest that smaller nations are more likely to import UAVs from the U.S. and Israel because closer ideological similarity between nations leads to decreased likelihood of UAV trade. Nations with large but contracting militaries are more likely to import UAVs from the U.S. while nations with small but expanding militaries are more likely to import UAVs from Israel; rising state fragility increases the likelihood of UAV imports from both the U.S. and Israel, but the U.S. is more likely to trade with fragile nations. The results do not suggest that nations import UAVs as a means of averting soldier casualties.

Introduction

Unmanned aerial vehicles (UAVs), more commonly known as drones, rapidly increased in popularity over the last 14 years. According to a 2012 report by the Government Accountability Office, the number of tactical UAV-capable countries grew from 41 in 2005 to 76 in 2011.¹ The growth in popularity shows no signs of dropping off. The Teal Group, a private defense systems analysis firm, estimates that "UAV spending will nearly double over the next decade" from \$6.5 billion in 2015 to \$11.5 billion in 2024.² Current analyses offer only estimates of UAV arsenals with the 2012 GAO report indicating 76 UAV-capable nations and the International Institute of Strategic Studies indicating just 56

1 Government Accountability Office (GAO). "Agencies Could Improve Information Sharing and End-Use Monitoring on Unmanned Aerial Vehicle Exports". July 30, 2012. Publicly Released September 12, 2012. <http://www.gao.gov/products/GAO-12-536>

2 Teal Group. "Teal Group Predicts Worldwide UAV Market Will Total \$91 Billion in Its 2014 UAV Market Profile and Forecast" July 14, 2014. <http://www.tealgroup.com/index.php/about-teal-group-corporation/press-releases/118-2014-uav-press-release>

UAV-capable nations in its 2012 report.

The emergence of UAVs has also become an entry point into legal and ethical discussions of the War on Terror, extrajudicial killings, and excessive domestic surveillance. However, little research has been done on international UAV proliferation in these contexts, so this paper examines only the exportation of UAVs from the U.S. and Israel. The results suggest that both the U.S. and Israel export to smaller, more autocratic nations. Israel exports UAVs to nations growing their military size, while the U.S. exports to nations with large but declining military sizes. Israel and the U.S. are more likely to export UAVs to more fragile nations with civil unrest, with the U.S. being even more likely to export to fragile nations. Stable nations with less civil unrest are more likely to import UAVs. Only Israel exports to nations with lower incidence of soldier casualties.

This paper provides statistical analysis of real-world arms flow, whereas past literature has focused only on the legal and ethical implications of UAV use. This paper explores the macroscopic trends of the two largest UAV exporters.

UAVs are governed internationally by the Missile Technology Control Regime (MTCR), which aims to control the proliferation of WMD-delivery systems, ballistic and cruise missiles, as well as UAVs.³ Thirty-four countries are currently partners with MTCR, and in 2015, the U.S. reaffirmed its commitment to the MTCR while simultaneously easing on the export regulations on UAVs sold by U.S. firms.⁴ Though Israel has not signed onto the MTCR, Appendix 3 in the GAO report outlines that Israel imposes regulations on UAV exports based on the guidelines of the MTCR. Israel's regulations are similar in nature to U.S. licensing requirements, yet they are distinct from them. At present, only the United States, United Kingdom, and Israel operate militarized drones equipped with surface-to-ground missiles, with the U.S. and Israel driving international exports. Because of narrow ratification of the MTCR and the often-discreet handling of arms deals, it is difficult to ascertain an exact figure on international UAV stores.

The proliferation of UAVs is a central concern of U.S. foreign policy, for advanced systems can be armed with lethal payloads and precise surveillance systems. Current holders of military drones are mostly democratic. However, data from the International Institute of Strategic Studies (IISS) shows that Iran, Russia, Turkey, and China pursue domestic military UAV programs as well.⁵ SIPRI arms trade data also shows that importers such as Turkey, Georgia, Colombia, and Ivory Coast are autocratic or exhibit autocratic tendencies.

3 The MTCR defines and is most concerned with Category I or II equipment. Category I UAVs have complete rocket systems, exceed a 300 kilometer range and a 500 kilogram payload. Category II also include complete rocket systems, but have a range less than 300km. http://www.mtcr.info/english/MTCR_Annex_Handbook_ENG.pdf

4 The MTCR defines and is most concerned with Category I or II equipment. Category I UAVs have complete rocket systems, exceed a 300 kilometer range and a 500 kilogram payload. Category II also include complete rocket systems, but have a range less than 300km. http://www.mtcr.info/english/MTCR_Annex_Handbook_ENG.pdf

5 Rogers, Simon. "Drones by Country: who has all the UAVs?" *The Guardian*. August 3, 2012. <http://www.theguardian.com/news/datablog/2012/aug/03/drone-stocks-by-country#data>

The Israeli UAV sector thrives on this international market. A marketing official for Israel Aerospace Industries (IAI), the state-owned Israeli UAV producer, says, “We exist because of the international market . . . We’re too big for Israel, to our delight.”⁶ IAI exports to 49 nations and report that “80 percent of its UAV products are designed for foreign markets.”⁷ IAI produces the high endurance Heron TP and Heron-1 models, which utilize sophisticated sensor systems for surveillance in even the most inclement weather. The recently launched Heron TP, capable of flying from Israel to Iran, was widely discussed for its remarkable endurance.

U.S. manufacturers, such as General Atomics and Northrop Grumman, face stringent export restrictions. Yet in February 2015, the U.S. Department of State amended its regulation regime in order to help commercial UAV exporters remain competitive in the global marketplace.⁸ The new policy distinguishes between military UAVs and commercial UAVs, and allows commercial UAVs to be governed by Export Administration Regulations (EAR), as opposed to the Conventional Arms Transfer (CAT) policy.⁹ This shift maintains licensing requirements for “non-military” UAVs, but relaxes the requirements of the CAT policy, which requires proposed transfers to be taken into account, among other factors, such as “U.S. regional stability interests,” “human rights, democratization, counterterrorism,” and “the likelihood the recipient would use the arms to commit human rights abuses or serious violations of international humanitarian law.”¹⁰ This policy shift has been seen as a direct result of mounting Israeli and Chinese competition in the global market. While the U.S. maintains a strong global presence in armed UAVs, with the iconic Predator “Hunter-Killer” UAV and the newer MQ-9 Reaper model, less expensive UAVs equipped with advanced sensory systems rather than surface-to-ground missiles have become the primary object of export.

Beyond competitive product offerings, “export regulation” carries different meanings in the U.S. and Israel. In 2006, Israel’s Ministry of Defense established the Defense Export Control Agency (DECA), which reviews applications for defense exports. Under DECA, an MTCR Committee specifically handles exports that fall under the MTCR, making Israel an adherent but not a signatory to the regime. DECA maintains responsibility for exports and imposes licensing restrictions prohibiting the resale of exports.¹¹ Under this system, Category I UAVs that Israel might export, such as the Heron TP, are controlled under a “presumption of denial” standard akin to the U.S. policy. On the other hand, lighter Category II UAVs, utilized for surveillance, are reviewed by DECA and may be approved with a declaration that the

6 Goldberg, Tia. “Israel leads global drone exports as demand grows” *The Times of Israel*.

<http://www.timesofisrael.com/israel-leads-global-drone-exports-as-demand-grows/>

7 *Ibid*.

8 U.S. Department of State. February 17, 2015. <http://www.state.gov/r/pa/prs/ps/2015/02/237541.html>

9 Export Administration Regulations. (UAVs to be found in Category 9 – Aerospace and Propulsion

Section 9A012) <http://www.bis.doc.gov/index.php/regulations/export-administration-regulations-ear>

Conventional Arms Transfer Policy. <http://www.state.gov/t/pm/rsat/c14023.htm>

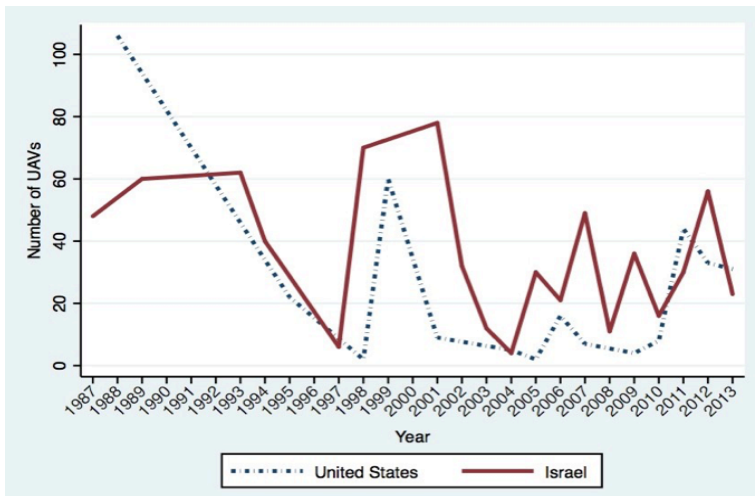
10 *Ibid*.

11 Government Accountability Office (GAO). “Agencies Could Improve Information Sharing and End-Use Monitoring on Unmanned Aerial Vehicle Exports”. July 30, 2012. Page 48. Publicly Released September 12, 2012. <http://www.gao.gov/products/GAO-12-536>

buyer adheres to MTCR controls. The party need not be a signatory to the MTCR.¹²

Since the signing of the MTCR in 1987, the U.S. and Israel have accounted for more than 75 percent of all UAV exports. Trends in export data reveal to which countries the US and Israel sell UAVs and what factors are of influence.

Figure 1: UAVs exported each year by the U.S. and Israel



Literature Review

In the last decade, there has been a marked increase in interest in the application and procurement of unmanned aerial vehicle systems. Cultural, normative, and practical military arguments have been presented to explain the rapid spread in UAV technology.

In “The Global Diffusion of Unmanned Aerial Vehicles” (2014), Ulrike E. Franke proposes that the UAV is symbolic of a modern army and they are in greater demand because they are ‘must-haves’ rather than practical military technology. Countries, therefore, desire an unmanned capability in order to appear advanced. She cites contemporary examples in which countries’ leaders proudly present their new technology rather than keep the development clandestine. Iranian and Venezuelan presidents Mahmoud

¹² Government Accountability Office (GAO). “Agencies Could Improve Information Sharing and End-Use Monitoring on Unmanned Aerial Vehicle Exports.” July 30, 2012. Page 49. Publicly released September 12, 2012.

Ahmadinejad and Hugo Chavez both appeared publicly to announce the new technology, and Russian President Vladimir Putin announced that Russia would invest \$12 billion to grow Russia's unmanned capability before the year 2020.

Dennis M. Gormley, in "Limiting the Unintended Consequences of UAV Proliferation" (2013), argues that despite governance by the Missile Technology Control Regime (MTCR) and "common goals about the non-proliferation of missile systems capable of WMD delivery," the MTCR has been unsuccessful at controlling the spread of UAVs "because of uneven implementation" and "virtually non-existent norms governing UAV proliferation."

In "The Costs and Consequences of Drone Warfare" (2013) Michael J. Boyle offers a vision of normative drift in regulating UAV sales and development. He argues, "a final, and crucial, step towards mitigating the strategic consequences of drones would be to develop internationally recognized standards and norms for their use and sale." According to Boyle, "the genie is out of the bottle: drones will be a fact of life for years to come. What remains to be done is to ensure that their use and sale are transparent, regulated and consistent with internationally recognized human rights standards." Boyle predicts a world in which governments and non-state actors alike can exploit drones: "Without a set of internationally recognized standards or norms governing their sale and use, drones will proliferate without control, be misused by governments and non-state actors, and become an instrument of repression for the strong." He proposes, "one remedy might be an international convention on the sale and use of drones." Boyle concedes that "enforcement of these guidelines and adherence to rules on their use will be imperfect and marked by derogations, exceptions and violations," but that "the presence of a convention may reinforce norms against the flagrant misuse of drones and induce more restraint in their use than might otherwise be seen."

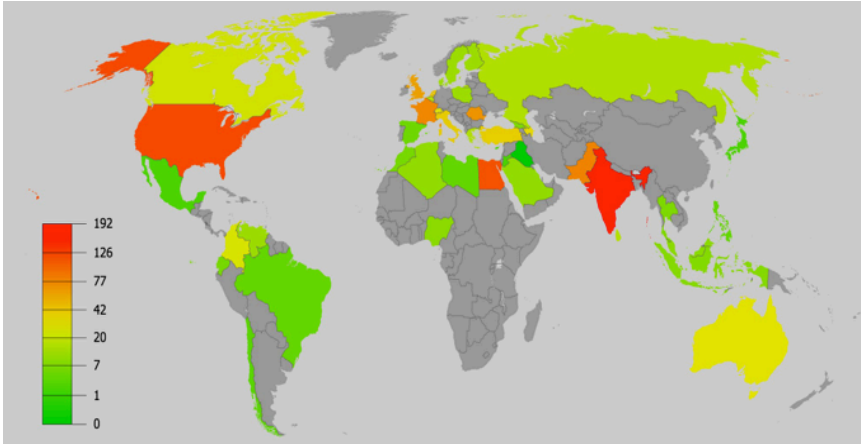
Since the terrorist bombings of September 11, 2001, wide authority has been given to the U.S. Army and CIA to fight the global war on terror. Derek Gregory in "The Everywhere War" (2011) notes, "the advanced technology that makes the UAV campaign possible – the combination of sensor and shooter in a single platform – does not dispel the fog of war." Instead, countries can still make mistakes based on poor or misinterpreted information. "Far from making the battle space transparent, this new apparatus actively exploits another grey zone, the space between civilian and combatant that is peopled by the spectral figures that haunt the landscape of insurgency." Drones increase the ability of a country to project power via both technological advancement and legal ambiguity. They are capable of operating in previously inaccessible theatres such as mountain regions and civilian-dense areas.

Though the UAV is a modern technology, a comparable case study exists in the development of the German Dreadnought battleship at the turn of the 20th century. In "German Dreadnoughts and the Saudi Bomb: Why We Should Be Wary of Saudi Arabia" (1993), Thomas Grant outlines the social and political advantages of replacing soldiers with "the most awesome and technologically advanced weapon of the turn of the century," the dreadnought battleship. He argues, "...for a country that desired to multiply its military force—but, for social, political, and demographic reasons, also to conserve the number of men at arms—a fleet offered the ideal security solution."¹³ "Technological force multipliers,"

13 Grant, Thomas. "German Dreadnoughts and the Saudi Bomb: Why We Should Be Wary of Saudi Arabia" *International Relations* 1993 11:405. <http://ire.sagepub.com/content/11/5/405.citation>.

as Grant calls the Dreadnought, embodies the modern use of UAVs in military contexts.

Figure 2: UAV Imports by Country 1987-2013



Theoretical Framework

UAVs have practical applications; therefore, there is demand for their importation met with supply for their exportation. As an import, the UAV is a long-term investment that promises enhanced surveillance capability, force projection, and strike capability. As an export, the domestic industry generates profit with every order filled abroad. The UAV also promises social and political benefits through the reduction of military personnel.

UAVs also have several practical advantages. They are inexpensive compared to conventional aircraft, replace military personnel, remove the risk of hostage scenarios, and are able to operate covertly within and across borders. UAVs fall into a space of legal ambiguity, as many nations do not have robust aviation regulations regarding their domestic and international use.

Nations that benefit from UAVs are likely to highly value soldiers' lives and be willing to invest in the technology necessary to protect them. Democratic nations in which soldiers are able to vote leaders out of office if they do not feel valued are particularly representative of this case. Nations seeking to cut military spending might turn to UAVs for their ability to replace both conventional aircraft and paid military personnel. Nations operating across borders or combatting terrorism might also turn to UAVs because of their ability to operate clandestine missions.

UAVs, however, may not be desirable for every nation. They have high start-up costs because infrastructure for launch and technological operation systems must be either developed or imported. In addition to replacing soldiers, military personnel must also be trained to operate UAVs. Nations for which UAV importation is disadvantageous are likely smaller and lack the significant military infrastructures necessary to incorporate and operate UAVs. These nations may not face domestic pressure to protect their

soldiers, and are more likely to be autocracies. Soldiers in autocracies do not vote, and leaders are less concerned with replacing military personnel.

Nations seeking to establish or expand their unmanned capability have two options: develop a domestic program or import foreign systems. Domestic UAV development is a long and costly process, for firms must both design technologically advanced UAV systems and construct manufacturing infrastructure. Importing foreign UAVs, while more cost-effective, means that a nation must meet the standards of the exporting nation. Despite ambitious predictions by private analysts, the number of firms exporting attractive UAV systems remains relatively few, with U.S. producers accounting for 45 percent of the global market share in 2013 and with Israel following close behind in second place.

This means that importing nations must adhere to Western export regulations that often fall in line with the MTCR, even if the importing nation is neither a party nor an adherent to the regime. Exporting nations are concerned primarily with security—they do not want to sell UAVs to nations that will turn around and use the technology against them. Exporters, then, seek to sell UAVs to nations with a high level of bilateral affinity and high levels of domestic stability. Exporting to ideologically aligned nations also increases the capabilities of the exporters' allies. The exported UAVs can subsequently be utilized in joint operations with exporting nations thereby strengthening the coalitions as a whole.

Profit is the next most important motivation for UAV exports. Exporting nations already have established domestic UAV programs, and there is significant utility in maintaining these firms research and development capabilities. In order to sustain these programs, exporting nations must either purchase UAVs themselves or allow firms to sell UAVs on the global marketplace. The central tension of exporting nations, therefore, is balancing security-driven export regulations with the financial incentive to allow exports as a means of supporting domestic UAV producers.

Despite this common framework, different market conditions in Israel and the United States lead to a different export profiles. In Israel, the UAV market was designed for exports, for domestic production vastly outpaced government purchases. In the United States, however, the Department of Defense went through a long period of 'procurement' following the September 11th attacks during which time government contracts subsidized the development of UAVs and therefore imposed tighter export regulations. The primary conflict of exporting nations is balancing appropriate export regulations with the financial incentive to allow exports in order to support domestic UAV producers.

Political Affinity

Following Franke's model of seeming advanced, regime type may not matter as the U.S. and Israel export to maintain market presence rather than ensure advanced weapon systems are only in democratic nations' possession. Franke cites the examples of Russia and Iran to demonstrate that autocratic countries have a significant interest in not merely growing their military capabilities, but in seeming like they are growing their military capability. The most significant UAV users—the United States, the United Kingdom, and Israel—are strongly democratic and presumably have an interest in increasing the capability of their allies while withholding technology from non-aligned nations.

*Replacement Technology***A) Soldier Casualties**

UAVs replace soldiers and provide additional safety to soldiers on the ground. The ability to send an unmanned drone on surveillance and strike missions in Afghanistan offers an alternative to manned reconnaissance and attack missions. The perceived value of a soldier depends on the type of regime. For example, an autocracy would not value the life of a soldier as highly as a democracy because a soldier does not vote in an autocracy.

Militaries are either voluntary or conscripted. A volunteer army would theoretically not value its soldiers as highly because, in contrast to a conscripted army, the soldiers in a volunteer army chose to serve. In democracies, this is especially noteworthy as the government is more responsible for conscripted soldiers because they were forced to serve. A democratic government would face voting reprisals from surviving family members if too many conscripted soldiers died. This means that there is incentive to replace soldiers with UAVs in democracies, especially those with conscription in place.

B) Small, but increasing military size

UAVs can serve as “technological force multipliers” and offer significant capability returns with low levels of manpower required. Nations with small army sizes, as measured by the number of soldiers, have an interest in the force multiplying power of UAVs. Therefore, nations with a small, but growing army size have an interest in importing UAVs.

C) Large, but decreasing military size

Similarly, nations seeking to reduce the size of their armies while maintaining military capability would have an interest in UAVs ability to multiply force while decreasing servicemen.

Advanced Capabilities in Combating Civil Unrest and Terrorism

As Derek Gregory argues in “The Everywhere War,” UAVs increase military capabilities to operate in unfavorable terrain and strike in previously inaccessible areas. UAVs also take advantage of the legal ambiguity between civilians and insurgents, which raises the possibility of countries utilizing UAVs against their own citizens in order to combat civil unrest and prevent terrorism. The UAV, then, is valuable technology for countries with civil unrest and high incidence of terrorist attacks. Officials in both autocratic and democratic governments face reprisals from civil unrest and terrorism—revolution in an autocracy and increased likelihood of voting reprisals in democracies.

Yet this theory must be qualified because UAV trade is regulated on a bilateral level. Nations with a high degree of civil unrest and terror deaths are liabilities to exporting nations. Despite market pressures to export competitively, exporting to unstable nations is unlikely to occur. An importing nation must have a government stable enough to carry out international arms deals.

Hypotheses

The literature establishes cultural, technological, and pragmatic arguments for UAV proliferation. The following hypotheses will test these arguments for UAV trade and will also examine a political theory approach to the use of UAVs as replacement technology in democratic nations with compulsory military service:

H1: Countries with higher ideological similarity to the exporting nation are more likely to import UAVs.
H2: Democratic countries with high incidence of soldier casualties are more likely to import UAVs.
H3: Countries with smaller armies that seek to increase military size are more likely to import UAVs.
H4: Countries with large military spending that seek to reduce military expenditure are more likely to import UAVs.

H5: Countries with domestic unrest or conflict, terrorism are more likely to import UAVs.

H6: Countries with stable governments but which experience domestic unrest, terrorist attack, or conflict are more likely to import UAVs.

Datasets

Data in this paper come from a variety of sources. Data on UAV transfers are from the Arms Transfer Database from the Stockholm International Peace Research Institute (SIPRI); United Nations General Assembly Voting Data from Anton Strezhnev and Erik Voeten; Major Episodes of Political Violence (MEPV), the State Fragility Index, High Casualty Terrorist Bombings (HCTB), and Polity IV from the Center for Systemic Peace; the Armed Conflict Dataset from the Uppsala Conflict Data Program; and the World Development Indicators on population, gross domestic product, military size and expenditure from the World Bank.

1. Arms Transfers Database (Exporter-to-Importer; UAV-specific), from the Stockholm International Peace Research Institute for 1987-2013, all countries.
2. World Development Indicators from The World Bank.
3. Major Episodes of Political Violence (MEPV) 1946-2014 from The Center for Systemic Peace.
4. High Casualty Terrorist Bombings 1989-2013 from The Center for Systemic Peace.
5. State Fragility Index 1995-2013 from The Center for Systemic Peace.
6. Polity IV Annual Time Series 1800-2013 from The Center for Systemic Peace.
7. Armed Conflict Dataset 1946-2013 from The Uppsala Conflict Data Program (UCDP) The Peace Research Institute and Oslo (PRIO).

Empirical Design

In order to determine the relationship between UAVs and factors that may contribute to their export and import, this paper uses dyadic zero-inflated negative binomial regression models. The unit of analysis is the number of military UAVs traded between a dyadic country pair in a year from 1987 to 2013. The series covers dyadic trade between the United States and Israel and 185 other countries. The definition of “military UAV” in this paper refers to a UAV that either meets the MTGR classification of Category I or II, or is a surveillance drone used in military operations and counted in the SIPRI Arms Transfer Database.

Zero-inflated negative binomial regressions are used because of the large number of “0” values present in the data. Though Poisson and zero-inflated Poisson regressions were considered, Poisson regressions assume a uniform mean and variance in the data, which is not the case with UAVs. Because zero-inflated negative binomial regressions do not allow for clustering, the Vuong test is used in each regression to determine the significance of a zero-inflated model over non-inflated negative binomial model. In each model, the Vuong test affirms the appropriateness of a zero-inflated model.

Independent Variables

year: Year a trade took place, 1987-2013

s3un: UN Voting Affinity, 1987-2012

civtot2: Combination of civil violence and war as well as ethnic violence and war in importing nation by country-year

logterrordeaths2: Log of number killed in terror attacks in importing nation by country-year

Polity 2_2: Polity IV score of importing nation by country-year

lognbattledeaths2: Log of number of soldiers killed inaction by country-year

logArmySize2: Log of army size of importing nation by country-year

logpopulation2: Log of population of importing nation

loggd2: Log of GDP of importing nation

Dependent Variables

ndrone: Number of UAVs traded from Country A to Country B in a given year

Where B indicates the marginal effect of the independent variable on the likelihood of the outcome, ndrone, the model for this equation appears generally as:

$$\text{ndrone}_{it} = \beta_u + \beta_{1x1it} + \beta_{2x2it} + \dots + \beta_{n xnit} + \epsilon_{it}$$

Controls

Population size of county will be controlled for, because a single UAV imported to a state with 50,000 people will likely have a larger marginal effect than a UAV imported to a nation with 50,000,000. The gross-domestic product of a nation will also be controlled for, because the import of a single UAV into a nation with a GDP of \$1,000,000,000 will likely have a larger marginal effect than a UAV imported into a nation with a GDP of \$1,000,000,000,000.

Results

Zinb regressions create two models—the negative binomial model that determines the count of UAVs in a country, and an inflated model detailing the logit likelihood of a country receiving one UAV and being a UAV nation. The results, then, handle both the count of UAVs traded and the logit likelihood of UAV trade occurring at all.

Ideological Similarity

To determine the relationship between ideological similarity and UAV trade, Polity IV and UN Voting Affinity are tested individually and then together. Polity 2 data on both Israel and the U.S. remains robust over the entire time series at either 9 or 10. Therefore, a higher Polity 2 score in importing nations indicates similarity in regime type to either the U.S. or Israel.

A) U.S.

Nations with lower UN affinity to the U.S. are more likely to import at least one UAV. In the zero-inflated logit model UN Affinity is significant at the 1 percent level in the separate model and at the 5 percent in the aggregated model. This suggests that nations with low UN Affinity to the U.S. increases the likelihood of a UAV being imported. Population, too, plays a key role in UAV import. Using

log(population), a smaller population size increases the likelihood of UAV import, suggesting that larger nations are less likely to import UAVs. Nations, then, with a low level of UN affinity to the U.S. and small populations are more likely to import UAVs from the United States. Nations with high UN affinity to the U.S. are, in fact, 6.6 times less likely to import UAVs. Large nations with ideological similarity to the U.S. can likely afford domestic UAV production, while smaller autocracies nations must seek advanced technology abroad. Polity 2 is not significant on its own or in the aggregated model, yet indicates that a lower Polity 2 score leads to a higher likelihood of importing U.S. UAVs. In the count model, Polity 2 is similarly not significant, but a higher Polity 2 score leads to fewer UAV imports.

Because low ideological similarity leads to a higher likelihood of UAV import, this result does not support H1, that countries with higher ideological similarity to the exporting nation are more likely to import UAVs.

Table 1: U.S. UAV Exports and Ideological Similarity

	(1) Polity 2	(2) UN Affinity	(3) Aggregate
U.S. UAVs			
Polity 2	-0.0637 (0.0369)		-0.167** (0.0590)
UN Affinity		-0.292 (0.491)	1.240 (0.674)
Log(GDP)	-0.0427 (0.0277)	-0.0586 (0.0303)	-0.0360 (0.0286)
Log(Population)	0.188* (0.0924)	0.146 (0.0956)	0.397*** (0.118)
Logit Likelihood			
Polity 2	-0.153*** (0.0302)		-0.128*** (0.0339)
UN Affinity		-1.896*** (0.413)	-0.760 (0.481)
Log(GDP)	0.0194 (0.0234)	0.0143 (0.0244)	0.0318 (0.0249)
Log(Population)	-0.643*** (0.0895)	-0.702*** (0.0948)	-0.665*** (0.103)
<i>N</i>	3436	3723	3234

Standard errors in parentheses

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

B) Israel

Table 2: Israeli UAV Exports and Ideological Similarity

	(1) Polity 2	(2) UN Affinity	(3) Aggregate
Israeli UAVs			
Polity 2	-0.0637 (0.0369)		-0.300*** (0.0570)
Log (GDP)	-0.0427 (0.0277)	-0.157* (0.0778)	-0.0857 (0.0519)
Log(Population)	0.188* (0.0924)	0.276* (0.122)	0.761*** (0.121)
UN Affinity		0.807 (1.071)	2.604*** (0.706)
Logit Likelihood			
Polity 2	-0.153*** (0.0302)		-0.174** (0.0579)
UN Affinity		0.531 (1.003)	1.666 (1.103)
Log(GDP)	0.0194 (0.0234)	-0.0709 (0.0583)	-0.0124 (0.0607)
Log(Population)	-0.643*** (0.0895)	-0.279 (0.146)	-0.196 (0.177)
<i>N</i>	3436	860	700

Standard errors in parentheses

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

UN affinity does not appear to be a determining factor in Israeli UAV exports while a lower Polity 2 score leads to more UAV imports from Israel. A 1 percent decrease in Polity 2 score leads to a 1.16 percent increased likelihood of Israeli UAV trade. Population remains positive and significant suggesting that larger nations are more likely to import UAVs from Israel.

In the negative binomial model for Israel, UN affinity is significant at the 5 percent level with a strong positive relationship to UAV trade and remains significant in the aggregated model at the 1 percent level when coupled with Polity 2, which has a slight negative coefficient and is significant at the 0.1 percent level. This indicates that a lower Polity 2 score leads to a higher likelihood of importing at least one UAV import from Israel, while a higher level of UN affinity and a lower Polity 2 score leads to even more UAVs being imported. The results suggest that larger autocratic nations with strong UN voting affinity to Israel

should be more likely to import UAVs, but a hesitation in this suggestion is the lack of UN Affinity data for Israel. There are only 860 observations in the dataset from Erik Voeten, which compromises the results from this model. Because of this, despite significant p-values, I cannot say that this result supports H1.

Replacement Technology for Soldiers

Soldier Casualties

In the second model, in order to determine the role of UAVs as both replacement technology and force multipliers, several models were constructed including $\log(\text{soldier battle deaths})$ and Polity 2 score of importing nations.

A) U.S.

Battle deaths do not appear to be significant, while population and Polity 2 score remain significant factors in determining UAV trade. A lower Polity 2 score leads to a higher likelihood of at least one UAV being imported from the US, while a higher Polity 2 score leads to more UAVs being imported from the United States. The aggregated model suggests that smaller, more democratic nations with higher battle casualties are more likely to import at least one UAV from the U.S., while smaller more democratic countries are then more likely to import more UAVs from the United States. The U.S. might trade with smaller more democratic nations with battle casualties to support ideological partners during times of war, whereas these small democracies seek to increase their military capability while protecting soldiers' lives. Battle casualties remain insignificant in both the logit likelihood model and negative binomial model, suggesting that they may not play a large role in determining UAV trade.

Table 3: U.S. UAV Exports, Battle Casualties and Government Type

	(1)	(2)	(3)
	Battle Deaths	Polity 2	Aggregate
U.S. UAVs			
Battle Deaths	0.0638 (0.109)		0.126 (0.106)
Polity 2		-0.0637 (0.0369)	0.155* (0.0743)
Log(GDP)	-0.0585 (0.0600)	-0.0427 (0.0277)	-0.0419 (0.0611)
Log(Population)	-1.783* (0.832)	0.188* (0.0924)	-2.656*** (0.781)
Logit Likelihood			
Battle Deaths	0.000280 (0.000429)		-0.00000907 (0.000234)
Polity 2		-0.153*** (0.0302)	-0.162* (0.0826)
Log(GDP)	-0.0266 (0.0534)	0.0194 (0.0234)	-0.00620 (0.0482)
Log(Population)	-2.544*** (0.545)	-0.643*** (0.0895)	-2.029*** (0.563)
<i>N</i>	4066	3436	3463
Standard errors in parentheses			
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$			

In the count and logit likelihood models of U.S. exports, battle casualties are positively correlated with UAV imports, but are not significant. Polity 2 is significant at the 5 percent level, $p < 0.05$, with a positive coefficient (0.167) in the aggregated model. Though battle casualties are not significant in the aggregated model, this would suggest that more democratic nations with incidence of soldier casualties would be more likely to import UAVs from the United States.

Population is significant in both the negative binomial model and the inflated logit likelihood model at the 0.1 percent level with large, negative coefficients. By examining the negative binomial aggregated model, we see that smaller, more democratic nations with battle casualties are more likely to import U.S. UAVs yet because battle casualties remain insignificant in both models, this result does not support H2.

B) Israel

A higher incidence of soldier casualties in autocratic nations is negatively correlated with Israeli UAV imports in the logit likelihood model. Israel is, therefore, more likely to export at least one UAV to smaller, more autocratic nations with fewer battle casualties.

Table 4: Israeli UAV Exports, Battle Casualties and Government Type

	(1) Battle Deaths	(2) Polity 2	(3) Aggregate
Israeli UAVs			
Battle Deaths	0.0601 (0.0949)		0.0121 (0.0880)
Polity 2		-0.0748 (0.0472)	-0.0711 (0.0495)
Log(GDP)	-0.0423 (0.0401)	-0.00159 (0.0479)	-0.00330 (0.0488)
Log(Population)	0.0509 (0.161)	0.150 (0.107)	0.133 (0.153)
Logit Likelihood			
Battle Deaths	-0.0970 (0.0510)		-0.122* (0.0552)
Polity 2		-0.111*** (0.0313)	-0.113*** (0.0325)
Log(GDP)	-0.00251 (0.0269)	0.0297 (0.0285)	0.0212 (0.0280)
Log(Population)	-0.560*** (0.102)	-0.649*** (0.104)	-0.540*** (0.114)
<i>N</i>	4039	3436	3436

Standard errors in parentheses

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

In the negative binomial model, no variables are significant. In the logit likelihood model, battle casualties have a negative coefficient (-0.122) significant at the 5 percent level, and Polity 2 and population are significant at the 0.1 percent level with negative coefficients. This suggests that as battle casualties, Polity 2 score, and population increase, the likelihood of importing UAVs from Israel decreases. As battle casualties, population, and Polity 2 decrease in a country, the likelihood that they will import UAVs from Israel increases. This is reasonable evidence against H2—that nations export to democracies with battle casualties.

Shifting Army Size

To determine the role of UAV trade in the changing size of an importing nation's army, a model was constructed including the log of an importer's army size and a factor variable to determine the change in army size over time ($c.\log\text{ArmySize2}\#c.\log\text{ArmySize2}$). The U.S. and Israel are run both separately and jointly in this model to determine macro trends of the two largest UAV exporters.

U.S. and Israel

In the negative binomial model, we see that the US primarily exports to nations with large, but declining army sizes while Israel exports to nations with small but increasing army sizes. The relationship between army size and the expansion or contraction of army size remains significant across all three negative binomial models, but the source of the UAV indicates an inverse relationship. Importers of U.S. UAVs tend to be nations with larger but declining militaries while importers of Israeli UAVs tend to be nations with smaller but expanding militaries. In the aggregated model, the scope of Israeli exports outweighs U.S. exports, and nations with smaller but expanding military size are more likely to import UAVs.

Table 5: U.S. and Israeli Exports to Nations and Their Military Style

	(1) U.S. UAVs	(2) Israel UAVs	(3) Aggregate
Army Size	23.92* (10.98)	-5.364* (2.390)	-4.072* (1.852)
Change in Army Size	-0.914* (0.455)	0.216* (0.0942)	0.179* (0.0755)
Log(GDP)	-0.0334 (0.0978)	-0.0155 (0.0422)	-0.0431 (0.0299)
Log(Population)	-4.437*** (1.283)	-0.0235 (0.254)	-0.210 (0.220)
Logit Likelihood			
Army Size	8.958 (7.324)	-1.767 (1.316)	-3.143** (1.207)
Change in Army Size	-0.352 (0.308)	0.0448 (0.0563)	0.109* (0.0513)
Log(GDP)	-0.0183 (0.0584)	-0.00433 (0.0289)	-0.00540 (0.0234)
Log(Population)	-2.841** (0.895)	-0.0497 (0.225)	-0.179 (0.180)
<i>N</i>	3158	3134	6292

Standard errors in parentheses

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

The logit likelihood aggregate model, however, shows with significance at the 1 percent level that nations with smaller but increasing armies are still more likely to import UAVs in general. This could indicate that larger countries with higher military capabilities are less likely to import UAVs, perhaps in favor of domestic production. Despite relatively stringent export regulations in both the U.S. and Israel, UAVs are in high demand by nations with small but expanding army sizes.

In the U.S. model, population continues to be significant in both negative binomial and logit likelihood models ($p < 0.0001$ and $p < 0.001$, respectively), yet in both models, the coefficient is strongly negative indicating that the U.S. is more likely to export to smaller nations with large but decreasing army size and smaller nations are also more likely to import UAVs from the United States. These results support H3 and H4, nations with smaller but expanding military sizes and larger but declining military sizes are more likely to import UAVs.

Civil Unrest and Terrorism

Civil Unrest and Terror

Modeling the relationship between civil unrest and high casualty terrorist attacks, the Major Episodes of Political Violence and High-Casualty Terrorist Attacks from the Center for Systemic Peace were used. Civil Unrest (*civtot2*) and High-Casualty Terror Attacks (*lognterrordeaths2*) are included individually and then into an aggregated model for both the U.S. and Israel.

A) U.S.

From the models for the U.S., it does not appear that either civil unrest or terrorism is a factor in UAV trade. Civil unrest is positively correlated while the number of terror deaths in a country is negatively correlated with UAV imports from the U.S. This would suggest that higher incidence of terrorist deaths is correlated with fewer UAVs being exported to a nation and civil unrest leads to more UAVs being imported, yet these results are not significant. Population remains significant at the 1 percent level in all logit likelihood models, indicating once again that a smaller nation is more likely to import UAVs. This indicates that larger nations with low levels of terrorist attack casualties and higher levels of civil unrest would be less likely to import UAVs. Yet neither terrorist attack casualties nor civil unrest is significant, and this result does not support H5.

Table 6: U.S. UAV Exports, Civil Unrest and Terrorism Casualties

	(1)	(2)	(3)
	Civil Unrest	Terrorism	Aggregate
U.S. UAVs			
Civil Unrest	0.101 (0.190)		0.226 (0.219)
Terrorism Casualties		-0.843 (0.617)	-1.125 (0.585)
Log(GDP)	-0.0695 (0.0591)	-0.0871 (0.0607)	-0.114 (0.0740)
Log(Population)	-1.820* (0.829)	-1.495 (0.821)	-1.426 (0.746)
Logit Likelihood			
Civil Unrest	0.213 (0.218)		0.273 (0.243)
Terrorism Casualties		-0.102 (0.885)	-0.507 (0.996)
Log(GDP)	-0.0286 (0.0499)	-0.0442 (0.0562)	-0.0431 (0.0560)
Log(Population)	-2.528*** (0.513)	-2.417*** (0.528)	-2.471*** (0.550)
N	3423	4066	3423

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ **B) Israel**

Civil unrest and terrorist casualties appear to have some impact on Israeli UAV exports. Nations with higher civil unrest and terrorist attack casualties are more likely to import more UAVs from Israel. In the negative binomial model, higher levels of civil unrest and higher terrorist casualties are significant at the 5 percent level and positively correlated with Israeli UAV exports, but lose their significance in the aggregated model. A 10 percent increase in civil unrest will lead to a 2.28 percent increase in UAV exports, while a 10 percent increase in terrorism casualties will lead to a 3.24 percent increase.

In the logit likelihood model, neither is significant, however population remains negatively correlated and highly significant at the 0.1 percent level, indicating that smaller nations with low levels of civil unrest and terrorist attack casualties are more likely to import at least one UAV from Israel.

Table 7: Israeli UAV Exports, Civil Unrest and Terrorism Casualties

	(1)	(2)	(3)
	Civil Unrest	Terrorism	Aggregate
Israeli UAVs			
Civil Unrest	0.228* (0.0925)		0.142 (0.138)
Terrorism Casualties		0.324* (0.139)	0.163 (0.210)
Log(GDP)	-0.0308 (0.0389)	-0.0280 (0.0379)	-0.0279 (0.0381)
Log(Population)	-0.203 (0.172)	-0.0992 (0.138)	-0.194 (0.169)
Logit Likelihood			
Civil Unrest	-0.0812 (0.0645)		-0.0742 (0.0690)
Terrorism Casualties		-0.0943 (0.0918)	-0.0591 (0.100)
Log(GDP)	0.00325 (0.0265)	0.00280 (0.0272)	0.00292 (0.0265)
Log(Population)	-0.567*** (0.114)	-0.600*** (0.104)	-0.549*** (0.115)
<i>N</i>	3396	4039	3396

Standard errors in parentheses

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

Based on these results, H5, countries with civil unrest and terrorism are more likely to import more UAVs, is supported though not robustly. Civil unrest and terrorist attack casualties appear to have some effect on UAV imports from Israel, though further research is required.

Government Stability & Civil Unrest and Terrorism

Because exporting nations have a significant interest in trading with nations that are stable, and that will not use the UAVs against the exporter, the State Fragility Index (sfi2) is included to determine the role of government stability in nations with civil unrest and terrorist attacks. A higher Fragility score means that a nation is more fragile and therefore less stable.

A) U.S.

Table 8: U.S. UAV Exports, Civil Unrest, Terrorism, and State Fragility

	(1)	(2)	(3)	(4)
	Civil Unrest	Terrorism	State Fragility	Aggregate
U.S. UAVs				
Civil Unrest	0.101 (0.190)			2.064** (0.690)
Terrorism Casualties		-0.843 (0.617)		-1.824* (0.865)
State Fragility			0.00939 (0.0695)	-0.564** (0.192)
Log(GDP)	-0.0695 (0.0591)	-0.0871 (0.0607)	-0.0610 (0.0525)	-0.324** (0.114)
Log(Population)	-1.820* (0.829)	-1.495 (0.821)	-2.075** (0.685)	-1.214 (0.725)
Logit Likelihood				
Civil Unrest	0.213 (0.218)			0.477 (0.936)
Terrorism Casualties		-0.102 (0.885)		-0.751 (1.409)
State Fragility			0.243*** (0.0680)	0.107 (0.240)
Log(GDP)	-0.0286 (0.0499)	-0.0442 (0.0562)	0.0568 (0.0550)	-0.0420 (0.125)
Log(Population)	-2.528*** (0.513)	-2.417*** (0.528)	-2.094** (0.722)	-3.277* (1.482)
N	3423	4066	2556	2498

Standard errors in parentheses

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

State fragility appears to affect U.S. UAV exports, but there also appears to be significant interaction effects between the three variables. Without factoring in civil unrest and terror attack casualties, an increase in state fragility increases the likelihood of at least one UAV import—the odds ratio of SFI is 1.275069; this indicates a strong association between higher fragility and UAV imports. In the count model, an increase in civil unrest and a decrease of terrorist attack casualties and state fragility increases the total number of UAVs imported. More stable nations with fewer terrorist attack casualties and higher civil unrest are more likely to import U.S. UAVs.

In the U.S. negative binomial model, civil unrest, terror, and state fragility are not significant. Yet in aggregate all three become significant, suggesting strong interaction between variables. Civil unrest has a positive relationship with UAV imports, while terror and state fragility have a negative relationship.

In the logit likelihood model, State Fragility is significant at the 0.1 percent level with a positive coefficient (0.243). This indicates that nations facing increases in state fragility are more likely to import at least one UAV from the U.S. As civil unrest rises, nations are likely to import more UAVs from the United States. Population continues to be significant in all four models as smaller nations are more likely to belong to import UAVs from the United States.

State Fragility is positively correlated with U.S. UAV trade. The more fragile a nation is, the more likely they are to import U.S. UAVs. This contradicts the theory, and does not support H6 of this paper; that more stable nations with terrorist attack casualties and civil unrest are more likely to import UAVs.

B) Israel

Table 9: Israeli UAV Exports, Civil Unrest, Terrorism, and State Fragility

	(1)	(2)	(3)	(4)
	Civil Unrest	Terrorism	State Fragility	Aggregate
Israeli UAVs				
Civil Unrest	0.228*			0.127
	(0.0925)			(0.117)
Terrorism Casualties		0.324*		0.131
		(0.139)		(0.158)
State Fragility			-0.0242	-0.0634
			(0.0351)	(0.0345)
Log(GDP)	-0.0308	-0.0280	-0.0357	-0.0514
	(0.0389)	(0.0379)	(0.0367)	(0.0340)
Log(Population)	-0.203	-0.0992	0.305*	0.144
	(0.172)	(0.138)	(0.139)	(0.142)
Logit Likelihood				
Civil Unrest	-0.0812			-0.462***
	(0.0645)			(0.112)
Terrorism Casualties		-0.0943		0.104
		(0.0918)		(0.137)
State Fragility			0.0792**	0.154***
			(0.0275)	(0.0372)
Log(GDP)	0.00325	0.00280	0.0290	0.0418
	(0.0265)	(0.0272)	(0.0309)	(0.0320)
Log(Population)	-0.567***	-0.600***	-0.712***	-0.548***
	(0.114)	(0.104)	(0.115)	(0.131)
<i>N</i>	3396	4039	2537	2479

Standard errors in parentheses

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

In the negative binomial model for Israeli exports, civil unrest and terror are significant on their own, but when aggregated together with state fragility, they lose significance. No other values in this model are significant.

In the logit likelihood model, however, state fragility is significant at the 1 percent level on its own and at the 0.1 percent level in aggregate. This indicates that as state fragility rises, the likelihood of buying a UAV from Israel increases. Civil unrest also becomes significant on the 0.1 percent level in aggregate; this suggests interaction between the variables. Population remains negatively correlated with UAV trade and is significant at the 0.1 percent level suggesting, again, that smaller nations are more likely to import UAVs.

It is important to note, however, the reduction in observations in the aggregated model. The aggregated models use only 2479 of 5008 possible observations because of gaps in the State Fragility Index.

Because of a significant number of missing values in the State Fragility Index in the Israeli model and the strong likelihood of interaction between variables in the U.S. model, it is also difficult to accept H6, which factors government stability into the model. H6 is inconclusive based on this data.

Civil War and Violence & Ethnic War and Violence

Because of strong interaction effects between variables in the previous model, this model breaks down the Civil Unrest variable (civtot2) into its constituent parts to determine the varying degrees of civil unrest and, following that, state fragility. The aggregated variable for civil unrest is broken down into civil violence and war (civviol2 civwar2) and ethnic violence and war (ethviol2 and ethwar2). Two new variables are then generated using civil and ethnic violence (civilunrest2) and civil and ethnic war (civilwar2). The underlying logic is that while civil and ethnic violence are more indicative of civil unrest, civil and ethnic war is indicative of structural state instability that might lead to a nation being precluded from UAV trade.

A) U.S.

Civil unrest and war were run independent of one another and then run together in an aggregated model. Only in the aggregated negative binomial model is civil unrest significant at the 5 percent level; it is positively correlated with UAV trade (0.41). This suggests that as civil unrest rises, UAV trade also increases. Civil war, however, remains negatively correlated with UAV trade, but remains insignificant. This finding makes it more credible to say that greater moderate civil unrest leads to UAV trade, even though civil war is insignificant.

Table 10: U.S. UAV Exports, Civil Unrest v. Civil War

	(1)	(2)	(3)
	Civil Unrest	Civil War	Aggregate
U.S. UAVs			
Civil Unrest	0.260 (0.287)		0.304 (0.295)
Civil War		-0.0753 (0.382)	-0.209 (0.332)
Log(GDP)	-0.102 (0.0717)	-0.0742 (0.0701)	-0.130 (0.0833)
Log(Population)	-1.581* (0.777)	-1.783 (0.943)	-1.378 (0.777)
Logit Likelihood			
Civil Unrest	0.247 (0.310)		0.278 (0.317)
Civil War		0.131 (0.314)	0.0646 (0.325)
Log(GDP)	-0.0509 (0.0538)	-0.0281 (0.0555)	-0.0524 (0.0597)
Log(Population)	-2.479*** (0.512)	-2.474*** (0.489)	-2.493*** (0.541)
<i>N</i>	3423	3423	3423

Standard errors in parentheses

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

GDP is negatively correlated with UAVs in the civil unrest and aggregated models. This suggests that if the U.S. is going to trade UAVs to nations with civil unrest, these nations are more likely to have smaller GDP. Population is significant in the individual models, but is not significant in the aggregated model; in all three models it is negatively correlated with UAV trade, indicating that smaller nations are more likely to import UAVs.

In the logit likelihood model, however, we see again that population is the strongest indicator of UAV trade likelihood—smaller population, higher U.S. UAV trade likelihood. Population remains significant in all three Certain-Zero models at least at the 1 percent level and smaller nations are more likely to import UAVs from the United States.

As Polity 2 decreases and a nation becomes more autocratic, it is more likely to import at least

one UAV. Yet as Polity 2 increases, a nation will import more UAVs from the United States.

B) Israel

While neither civil unrest nor war is significant in any model, smaller, more autocratic countries are more likely to import at least one Israeli UAV.

In the logit likelihood model Polity 2 and population are significant across models at the 0.1 percent level. As Polity 2 and population decrease, the likelihood of a nation importing a UAV increases indicating that larger democracies are less likely to import UAVs from Israel controlling for civil unrest and even war. Even with this additional attempt to determine the magnitude of unrest in a country, H6 remains inconclusive.

Table 11: Israeli UAV Exports, Civil Unrest v. Civil War

	(1)	(2)	(3)
	Civil Unrest	Civil War	Aggregate
Israeli UAVs			
Civil Unrest	0.381 (0.245)		0.113 (0.245)
Civil War		0.343* (0.147)	0.291 (0.168)
Log(GDP)	-0.0374 (0.0403)	-0.0253 (0.0397)	-0.0283 (0.0394)
Log(Population)	-0.0698 (0.162)	-0.204 (0.184)	-0.207 (0.177)
Logit Likelihood			
Civil Unrest	-0.199 (0.136)		-0.210 (0.141)
Civil War		-0.0489 (0.0786)	-0.0401 (0.0794)
Log(GDP)	0.00543 (0.0262)	0.00495 (0.0269)	0.00466 (0.0263)
Log(Population)	-0.562*** (0.106)	-0.608*** (0.112)	-0.556*** (0.116)
<i>N</i>	3396	3396	3396

Standard errors in parentheses

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

Interpretation and Discussion

Despite falling costs and more accessible export regulations from countries such as Israel, the U.S., and China, UAVs are a heavy military technology and export regulations remain relatively stringent. Across nearly all models and theories, small population is consistently an indicator of UAV trade from either the U.S. or Israel, suggesting that smaller nations prefer importing UAV technology to domestic production. Ideological similarity seems to play a role as nations with low UN Affinity to the U.S. or Israel are more likely to import UAVs from either nation, but even this result is complicated by incomplete UN Affinity data for Israel. Soldier casualties remain insignificant in the U.S. models, yet significant for Israeli exports, as Israel is more likely to trade with smaller autocratic nations with fewer battle deaths.

While both the U.S. and Israel are more likely to trade with smaller, more fragile nations, each has a different tolerance for instability and military capability in the importing nation. Comparing Israeli and U.S. exports to an importer's State Fragility, the U.S. is significantly more likely than Israel to export to a fragile nation, in spite of the fact that Israel is also more likely to export to a fragile nation. The U.S. exports to nations with a large but declining military size while Israel exports to nations trying to grow their military size. It is interesting to note here that despite these distinctions in military expansion and contraction—both the U.S. and Israel export to smaller nations. This suggests that regardless of whether or not a nation is seeking to grow its military or scale it down, nations seek exactly the “force multiplier” effect that the Dreadnought case highlights—U.S. UAV importers seek to scale down military size without hindering capability and Israeli UAV importers seek to scale up military size more efficiently.

Conclusion

These results have compelling implications for the future of UAV proliferation. The United States and Israel have remained unchallenged leaders of the UAV market, yet the two have approached global sales differently. Israeli UAVs were, as an Israeli UAV marketer put it, always meant for international sale. The domestic market could not absorb the production of large Israeli defense firms. Conversely, from 1987 to 2013, the U.S. could afford to be more parsimonious about its exports because of substantial Department of Defense contracts and research investments. Yet in 2015, the Department of Defense reduced its UAV expenditure from \$3.9 billion to \$2.4 billion and quietly stated that in the coming years, “the DoD will not be the bulk user within that market”. This is telling. The period of DoD ‘procurement’ is over, and a new period of so-called ‘sustainment’ has begun. Despite past U.S. export trends, the future of U.S. UAV exports may follow the Israeli model and look to the international market to support industry growth and maintain market share. This shift, however, may also entail exporting UAVs to nations with higher levels of civil unrest and lower levels of ideological similarity.

Despite the MTGR, the UAV game remains bilateral. Exporting nations create their own policy balancing security and market interests while importing nations seek UAVs for use in growing a military more efficiently or reducing military size without compromising national security. Both Israel and the U.S. are more likely to trade with ideologically dissimilar nations, and Israel's UAV market is still dependent on the international market. Israel exports broadly and trades with nations with more battle deaths, while the U.S. exports to nations with higher instability.

As domestic contracts decrease, UAV-producing firms must work to secure export approval from domestic governments in order to survive. Boyle's fears of unmonitored proliferation and Gregory's

concerns about extended theatres of war become especially salient as security concerns give way to market necessity, with international UAV competition fueling a global race to the bottom.

Appendix

Ideological Similarity

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(Polity\ 2)_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(Polity\ 2)_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

Replacement Technology

Battle Deaths

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(\log(Battle\ Deaths))_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(\log(Battle\ Deaths))_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

Shifting Army Size

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(\log(ArmySize))_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(\log(ArmySize))_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel\ \&\ USA-country\ b\ t} = \beta_0 + \beta_1(\log(Battle\ Deaths))_{it} + \beta_2(UN\ Affinity)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

Civil Unrest and Terrorism

Civil Unrest and Terrorism

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(Civil\ Unrest)_{it} + \beta_2(\log(Terror\ Deaths))_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(Civil\ Unrest)_{it} + \beta_2(\log(Terror\ Deaths))_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

State Fragility, Civil Unrest and Terrorism

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(Civil\ Unrest)_{it} + \beta_2(\log(Terror\ Deaths))_{it} + \beta_3(State\ Fragility\ Index)_{it} + \beta_4(\log(Population))_{it} + \beta_5(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(Civil\ Unrest)_{it} + \beta_2(\log(Terror\ Deaths))_{it} + \beta_3(State\ Fragility\ Index)_{it} + \beta_4(\log(Population))_{it} + \beta_5(\log(GDP))_{it} + \epsilon$$

Civil Unrest versus Civil War

$$UAV_{USA-country\ b\ t} = \beta_0 + \beta_1(Civil\ Violence)_{it} + \beta_2(Civil\ War)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

$$UAV_{Israel-country\ b\ t} = \beta_0 + \beta_1(Civil\ Violence)_{it} + \beta_2(Civil\ War)_{it} + \beta_3(\log(Population))_{it} + \beta_4(\log(GDP))_{it} + \epsilon$$

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Arms Transfers Database (Exporter-to-Importer; UAV-specific)

Stockholm International Peace Research Institute

1987-2013, all countries

<http://armstrade.sipri.org/armstrade/page/values.php>

See also a formatted table here: http://www.stimson.org/images/uploads/international_uav_exports.pdf

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A STUDY OF PAST, PRESENT, AND FUTURE CORPORATE GOVERNANCE STRUCTURES IN THAILAND

KUSH FANSIWALA & MANSI PRAKASH

This report analyzes corporate governance in the 1997-1998 East Asian Financial Crisis. Specifically, the report explores underlying issues in corporate governance that led to the crisis itself. Continuing, this report discusses changes in corporate governance that arose following the crisis as well as potential future reforms. The report outlines issues in ownership concentration, shareholder protection and activity, weak capital markets, and poor creditor monitoring. The report finds several significant regulations imposed by various Thai regulatory bodies improved corporate governance. Some of these reforms include balance of independence in committees and boards, the Public Company Act, and a new Bankruptcy Act. While corporate governance has certainly improved in Thailand since the crisis, data have suggested that improvement remains incomplete. Altering corporate governance in Thailand involves a shift in paradigm from the relationship-based systems of the past to a more outsider-based system that can be found in the Anglo-American models. This paper outlines several key issues that remain in the corporate governance of Thai companies.

Corporate Governance in Thailand Before the 1997 Financial Crisis

In order to understand the East Asian Financial Crisis of 1997 through the lens of corporate governance, one must look at the existing corporate governance structures in Thailand, the country where the crisis originated. Thailand—along with many other East Asian countries at the time—was experiencing rapid economic growth; however, this growth was built on poor foundations of corporate governance. The Organisation for Economic Co-operation and Development, thus called OECD, defined five critical features of corporate governance in major East Asian countries that led to the financial crisis: ownership, shareholder participation and protection, creditor monitoring and protection, and capital markets and finance.¹

Looking at the first critical feature of corporate governance ownership, A Consolidated Report

¹ *A Consolidated Report on Corporate Governance and Financing in East Asia Executive Summary*, (Rep. Hong Kong: OECD, 2000), 3-4.

CORPORATE GOVERNANCE STRUCTURES IN THAILAND

on Corporate Governance and Financing in East Asia Executive Summary indicates Thailand had an average top-five shareholder concentration ratio of 56.6 percent in all publicly traded companies.² This ownership of companies was not concentrated in the hands of institutional investors and instead was concentrated in families that controlled them. In Thailand, an analysis of company ownership showed 50 percent of shares in publicly listed companies were owned by non-financial institutions. These companies not only had concentrated ownership, but also concentrated family ownership.³ This highly concentrated, relationship-based corporate governance structure was not exclusive to Thailand and was found in many East Asian countries. The highly insular nature of these companies meant that these large shareholders, often bound in familial relations, could pursue their own interests instead of pursuing policies that would maximize benefits for the majority of shareholders and induce long-term profitability and stability.

Shareholder and participation control is also tied to the highly insular nature of corporations in Thailand. The report showed that the board of directors was not an effective force to ensure managers acting in the interests of minority shareholders. Corporate governance structures in Thailand allowed majority shareholders to appoint board members without needing the approval of minority shareholders. While the Thai Stock Exchange did rule that at least two of the directors on a board must be independent, this only means they cannot be within management or an employee.⁴ The rule does not prevent large shareholders from appointing directors who have close personal ties to the family who owns the majority of shares.

Alongside lack of independent directors, legal protections for shareholders and disclosure requirements for these companies were very weak. Fraudulent financial reports were rampant as there were no effective mechanisms for punishment. In a study done by Todd Mitton, two variables were used to indicate a firm's high quality disclosure: a listed American depository receipt (ADR) and auditing by a "Big Six" firm. Mitton's study found a correlation between high quality disclosure and stock price performance in East Asian firms during the financial crisis. Firms with ADRs had 10.8 percent higher returns and firms with a "Big Six" auditing firm had 8.1 percent higher returns on average compared to other firms.⁵ The majority of firms did not belong to either of these groups, indicating the lack of disclosure negatively affected the financial value of many firms during the crisis. Finally, there was very little separation between the chairperson position and management. A survey by the Asian Development Bank showed that 71.3 percent of surveyed companies had a chairperson of the board who was also a top member of management.⁶ The lack of separation between the board and management allowed management to pursue selfish, potentially harmful business decisions.

² Juzhong Zhuang, *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand* (Manila, Philippines: Asian Development Bank, 2000), 22.

³ *Ibid.*, 23-34.

⁴ Juzhong Zhuang, *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand* (Manila, Philippines: Asian Development Bank, 2000), 30.

⁵ Todd Mitton, "A Cross-Firm Analysis of the Impact of Corporate Governance on the East Asian Financial Crisis," *SSRN Electronic Journal SSRN Journal* 64.2 (2002): 227.

⁶ Juzhong Zhuang, *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand* (Manila, Philippines: Asian Development Bank, 2000), 30.

The third and fourth issues, creditor monitoring and capital markets, concur. Poor creditormonitoring was a result of two major factors: the lack of regulation and governance in the banking and finance sectors as well as the guarantee of government loans.⁷ Banks themselves were poorly run and monitored. It is unsurprising that they would be uncoordinated in monitoring the companies to whom they gave loans. Clearly, this is problematic due to the weak capital markets in Thailand. Capital markets amounted to no more than 30 percent of internal finance in Thailand. Thus, mechanisms for punishment of poor corporate governance in market-based systems, such as takeovers, were nonexistent.⁸ From 1978 to 1997, there were only nine mergers and acquisitions involving listed companies.⁹ Banks played a much larger role in financing and accordingly must also play a major role in monitoring. The issue of government loans led to moral hazard. Corporations were willing to take risks and banks were more likely to let these companies take these risks because both parties knew that in the event that the risky decision did not succeed, the government would be able to bail out both the company and the bank.

The blame for these issues does not fall on insufficient laws. The government of Thailand along with other East Asian nations attempted to modernize and strengthen regulation in the corporate sector. However, corruption, loopholes, lack of qualified personnel, and other issues rendered these laws ineffective.¹⁰

The 1997 Financial Crisis

The East Asian Financial Crisis was due to a series of interconnected macroeconomic changes in Thailand that together led to financial ruin. The major catalyst that started the crisis was the rapid flight of foreign capital. Several corporate failures led to capital flight, which eventually influenced rapid devaluation of the Thai baht and many other East Asian currencies.¹¹ IMF intervention was not effective and in fact may have done more harm than good.

In early February 1997, a Thai property development company, Somprasong Land, missed payments on foreign debt. As foreign investors focused in Thai property markets, the missed payments by Somprasong Land were a warning sign to many foreign investors.¹² The Thai government witnessing the demise of the property market lent huge sums of money to failing financial institutions over the next several months, totaling over 8 billion U.S. dollars.¹³ Usable reserves of Thai baht began to shrink rapidly.

⁷ *A Consolidated Report on Corporate Governance and Financing in East Asia Executive Summary* (Rep. Hong Kong: OECD, 2000), 4.

⁸ *Ibid.*, 4.

⁹ Juzhong Zhuang, *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand* (Manila, Philippines: Asian Development Bank, 2000), 47.

¹⁰ *A Consolidated Report on Corporate Governance and Financing in East Asia Executive Summary* (Rep. Hong Kong: OECD, 2000), 4.

¹¹ Steven Radelet and Jeffrey Sachs, "The Onset of the East Asian Financial Crisis (Working Paper 6680)," *NBER Working Paper Series* (1998): 1.

¹² *Ibid.*, 32.

¹³ Steven Radelet and Jeffrey Sachs, "The Onset of the East Asian Financial Crisis (Working Paper 6680)," *NBER Working Paper Series* (1998): 32.

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Eventually Thailand was forced to stop bailing out companies, starting with the bank Finance One. Without the bailouts, foreign creditors took significant losses and foreign investment began to rapidly leave Thailand, causing several severe economic issues including Thai baht devaluation.¹⁴ The issues of corporate governance are clearly seen in the events leading up to the financial crisis. Financial institutions such as Finance One gave out large sums of money to companies in the real estate market despite the risk because it was thought the government would be able to bail them out.

While the failure of financial institutions created the initial crisis in Thailand, the crisis soon spread to other countries in East Asia. Political uncertainty helped expedite the process in countries such as Malaysia and Korea, foreign investors treating the entire region as one entity instead of separate countries may have caused the crisis to spread even quicker.¹⁵ Perhaps foreign investors were correct in this assumption, as it was apparent that all of these countries suffered from the same systemic corporate governance issues. In addition, the IMF assistance packages simply added fuel to the fire by inadvertently signaling to investors that these countries had poor institutional foundations.¹⁶

While corporate governance may not have directly caused the East Asian Financial Crisis, it was certainly a major underlying factor, allowing the situation to spiral out of control. Since Thailand had poor equity markets, these financial institutions played a significantly higher role in financing corporations than Anglo-Saxon market-based model. In addition, these financial institutions did not monitor the corporations very strictly and the corporations had no reason to monitor themselves. These issues, along with the clear moral hazard of the Thai government's plan to bail out failing financial institutions, cleared the path for the financial crisis to begin. In addition, because of the initial breakdown of the property market in Thailand, foreign investors became very aware of the highly concentrated ownership structures in Thailand and the poor disclosure requirements. These issues led to a loss of credibility, in turn creating the panic that led to foreign capital flight.

Corporate Governance Post-1997 Financial Crisis

Focusing on the five critical features that led to the financial crisis in A Consolidated Report on Corporate Governance and Financing in East Asia Executive Summary, Thailand has implemented a number of mechanisms to enhance corporate governance.¹⁷ The Securities and Exchange Commission (SEC) and Stock Exchange of Thailand (SET) have played a particularly crucial role in the improvement of corporate governance. Although the SEC was established in 1992, and the Thai stock market dates back to the early 1960s, they modified and implemented several acts specifically after the 1997 financial crisis.¹⁸

Ownership

The corporate ownership structure has become less family-oriented and more dominated by

¹⁴ Ibid., 33.

¹⁵ Ibid., 33.

¹⁶ Ibid., 34.

¹⁷ Sakulrat Montreevat, *Corporate Governance of Listed Companies in Thailand* (Singapore: Institute of Southeast Asian Studies, 2006), 10.

¹⁸ "Good Corporate Governance."

government and foreign investors. The Thai government owns seven of the 14 commercial banks and thus is the largest equity owner in the banking industry.¹⁹ As a result, the government has a major political and economic influence on Thai corporate governance. The Thai government has also created structures to ensure efficient and smooth corporate governance, including regulation, market forces, and self-restraint. Thai capital markets are relatively small, and play a subordinate role to banks in providing finance to companies, thus regulation plays the most vital role in proper corporate governance.²⁰

However, the role of management and employees remains unchanged. They have not taken any steps to improve the Thai corporate governance situation. In certain cases, some management is more hesitant to participate in corporate governance due to insufficient legal protection. Due of the poor performance of the Thai stock market, stock options are no longer valuable compensation for management. Although the majority of companies are less family-oriented and more dominated by the government, ownership concentration is still high, potentially leading to corporate governance issues.

Thai State-Owned Enterprises (SOE) continuously improve their corporate governance mechanisms. SOEs were initially implemented after the financial crisis to regain prosperity, contribute to the competitiveness for the private sector, and ensure sustainability in the Thai economy.²¹ They have been successful in their role and have provided a number of positive outcomes for the economy, including fundamental economic infrastructure, which contributed to the country's competitiveness and provided employment opportunities.²² SOEs have implemented and enforced proper rules for directors, along with remuneration, performance evaluation, reporting, and strategic planning and investments.

Additionally a limit has been imposed on the number of companies that executives can associate with. For instance, bank directors and top executives are no longer allowed to serve as the board chairperson for more than three other companies.²³ Guidelines regarding the independence of the board of directors have also been implemented. For example, a detailed explanation of an independent director was established, and no more than one-third of the board of a bank can be executive directors. The board must either consist of three independent directors or have a one-to-four independent-to-director ratio, depending on which is higher.²⁴ These regulations have been largely successful in monitoring board responsibilities as well as ensuring independence. Most Thai companies are now in compliance with the creation of an independent audit committee and have created specific guidelines for board responsibilities.²⁵ In addition, 76 percent of companies consist of non-executive directors on over half the board, but while

¹⁹ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov 3.4* (2006): 293.

²⁰ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov 3.4* (2006): 293.

²¹ Pallapa Ruangrong, "ARGC Task Force on Corporate Governance of SOEs: The Case of Thailand."

²² Pallapa Ruangrong, "ARGC Task Force on Corporate Governance of SOEs: The Case of Thailand."

²³ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov 3.4* (2006): 297.

²⁴ *Ibid.*, 297.

²⁵ Sakulrat Montreevat, *Corporate Governance of Listed Companies in Thailand* (Singapore: Institute of Southeast Asian Studies, 2006), 12.

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they are “independent,” they are still related to the company or its majority shareholders.²⁶ A further study in 2002 found that 68 percent of firms had between 25 percent and 50 percent of their boards consisting of independent directors, demonstrating progression towards improved corporate governance.²⁷

Regarding the compensation of board members and executives, rules were implemented to facilitate transparency as well as gain shareholder approval. In reality, few companies have followed these rules, diminishing the alignment of management and shareholder interests.²⁸

Shareholder Participation and Protection

In tackling the issue of shareholder participation and protection, rules and regulations have been placed to protect minority shareholders. The number of benefits and transactions, particularly related to major shareholders and top executives, many of whom are family-owned, has decreased.²⁹

Action has been taken by a number of organizations as well as by the government. The SEC has played a particularly vital role in the effectiveness of the changes being made. The Public Company Act has altered their rules to ban distribution of loans to shareholders, top executives, and directors.³⁰ Furthermore, the SET and SEC revised their rules and implemented a clear set of definitions, rules, and processes to avoid such arrangements. Companies are required to provide written information about the transactions to both the SEC and their shareholders, who must approve of the transaction, prior to the shareholder meeting date.³¹ This not only increases the level of shareholder participation and transparency, but also allows the SEC to play the role of a monitor and intervene in cases of inappropriate transactions. The SEC has a system in place to handle such misconduct, where they will require explanations from the company and take appropriate legal action. For example, in 2004, the SEC stopped six illegal transactions worth three billion baht (\$70 million) and ordered a settlement of 1.5 billion for three of the conducts.³²

The SEC has also requested specific government changes regarding the Securities and Exchange Act, which would allow for effective corporate governance and provide smaller shareholders with a voice.³³ The changes include penalties for failing to inform shareholders of important information, small shareholders rights to call meetings, SEC power to take action against unfair transactions, and procedures to follow transactions of major shareholder or company executives.³⁴

²⁶ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 34.

²⁷ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 34.

²⁸ *Ibid.*, 29.

²⁹ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 294.

³⁰ *Ibid.*, 294.

³¹ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 294.

³² *Ibid.*, 294.

³³ *Ibid.*, 294.

³⁴ *Ibid.*, 294.

The SET introduced two crucial corporate governance changes regarding the structure of the board of directors. First, the board must have a certain number of independent directors. Second, all firms must have an audit committee containing at least three independent directors.³⁵ Furthermore, the definition of "independent directors" was amended to incorporate non-employees who have either a personal relationship or a material financial relationship with the executives.³⁶ This diversity ensures that the company board brings in valuable strategy development perspectives as well as insights on investor expectations and relations. In a 2002 report by McKinsey & Company, it found that 87 percent of the firms allowed time for shareholders to ask questions at the Annual General Meeting (AGM) and that the chairperson was present 76 percent of the time.³⁷ Shareholders also received equal treatment when repurchasing shares or dividends, indicating a rise in shareholder voice due to increased independence.³⁸

Through these rules and regulations, disclosure and transparency have significantly increased, allowing for increased shareholder participation and protection. The approach that Thai companies have taken is similar to the Anglo-American style. Information can be neither misleading nor withheld, and a company's financial statements are required to be composed in line with the SEC-approved accounting and auditing standards. The data in Table 1 depict the change in disclosure and transparency following the financial crisis.³⁹ It clearly indicates that all major corporate information must be outlined in the annual report, and financial statement information must be disclosed on the main company website. As the table shows, 79.8 percent of semi-annual financial statements and 63.7 percent of the names of the board members were disclosed on the company website, indicating an increase in transparency for not only shareholders but also for investors and the public.⁴⁰

While such regulations have been implemented, a study in 2002 indicates that only five percent of firms provided shareholders with adequate information and documentation to help make decisions on voting issues.⁴¹ Furthermore, while companies sent out proxy forms to facilitate shareholder voting, only 35 percent of companies supplemented this with adequate documentation and process description for how to vote.⁴² Most proxy votes are completed by inactive or minority shareholders, which adds difficulty for shareholders to make their decision. As shown in Graph 1, while 99 percent of companies sent out proxy voting forms and provided a proper rationale for actions or transactions taken, only 10 percent of

³⁵ Ibid., 295.

³⁶ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 288-305. Web. 22 Nov. 2015. 295.

³⁷ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 8.

³⁸ Ibid., 28.

³⁹ Chatrudee Jongsureyapart, Victoria Wise, and Ali Yafitian, "Post-crisis Corporate Governance in Thailand: Banking Sector," *Banks and Bank Systems* 7.1 (2012): 46.

⁴⁰ Ibid., 46.

⁴¹ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 29.

⁴² Ibid., 31.

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firms provided a mechanism that would allow minority shareholders to influence board composition.⁴³ This suggests that while they have experienced an increase in power and protection due to the regulations, minority shareholders are still passive in certain regards.

Creditor Monitoring and Protection

The Bank of Thailand (BOT) overlooks the Thai financial institutions, and established seven initiatives to ensure proper corporate governance among commercial banks and financial institutions. Firstly, banks and financial companies are banned from lending an excessive amount to organizations they favor, and the Board of Directors must endorse all loans.⁴⁴ Secondly, the “Financial Institution Directors’ Handbook” has been created to outline fiduciary duties of the board, examine their role of monitoring management, and defines how action against unlawful activities can be taken.⁴⁵ Furthermore, external auditors must be approved by the BOT and changed every five years; they are given specific duties and compile an annual report assessing the efficiency of the bank transactions and auditors. The responsibilities of internal auditors must also abide by the legal rules of the Institute of Internal Auditors and SET.⁴⁶

Working closely in line with the IMF’s legal reform, a new Bankruptcy Act was implemented to supplement the 1940 Bankruptcy Act.⁴⁷ This law aims to reassure creditor rights, gives them power to approve certain plans as well as to provide financial assistance to insolvent debtors without losing the right to make payments in future bankruptcy cases. It provides a mechanism to not only protect bankrupt debtors while refining creditor rights but also gives an incentive to foreign creditors.⁴⁸

Capital Market and Finance

Institutional investors have never played a major role in Thai corporate governance. However, the California Public Employees’ Retirement System (CalPERS) decided to invest in Thailand and three other ASEAN countries after the significant changes were implemented.⁴⁹ As a result, the Thai government created a committee for corporate governance on the national level. They are responsible for ensuring proper auditing standards, enforcing code of conduct and code of ethics as well as educating the public on corporate governance.⁵⁰

A 2002 study by McKinsey & Company indicated that there was a statistically significant positive correlation between good corporate governance and the market valuation of Thai companies.⁵¹

⁴³Ibid., 31.

⁴⁴Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 296.

⁴⁵Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 296.

⁴⁶Ibid., 296.

⁴⁷Ibid., 296.

⁴⁸Ibid., 296.

⁴⁹Ibid., 298.

⁵⁰Ibid., 298.

⁵¹Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," *Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 25.

As Graph 2 shows, companies with higher corporate governance scores generally have a higher market-to-book value ratio.⁵² This suggests that improving corporate governance practices could benefit stock performance. However, correlation does not imply causation. Even if good corporate governance exists, this does not necessarily mean premium valuation.⁵³ Nevertheless, further evidence suggests that good corporate governance facilitates payment. Outside equity investors are more likely to invest in a company that they trust as well as one with strong financial statements, internal processes, strategy and transparency with a durable potential future.⁵⁴ A survey carried out in 2000 by McKinsey & Company on investor opinion outlines that investors are willing to pay a 25.7 percent premium for a well-governed company despite identical financial performance.⁵⁵

Positive Reinforcement

In attempts to ensure that proper corporate governance practices are continuing to be implemented, the SET has required that companies list 15 principles of good corporate governance in their annual reports since 2002.⁵⁶ The principles can vary, and can include fair treatment of shareholders, an independent board of directors, disclosure of executive compensation, and financial disclosure. Any companies that do not submit this must include the reason for non-compliance. To facilitate the process, the SET provided workshops on the 15 principles and created a Corporate Governance Center, which extends consulting services and techniques to listed companies on improving corporate governance practices.⁵⁷

The SEC and SET have attempted to implement both a rating and rewards system for good corporate governance practices. For example, provide certain benefits to companies with high corporate governance ratings. The Thai Rating and Information Services Company decides the ratings and (TRIS), considers 45 categories under four criteria: shareholder rights, composition and roles of the board of directors and management, information disclosure, and corporate governance culture.⁵⁸ The SEC and SET rewarded good corporate governance by offering reduced fees and recognition on their websites.

While its purpose was to provide investors with additional information, incentivize companies to increase disclosure, and promote good corporate governance, the TRIS stopped its rating service in 2005 due to two main reasons. Firstly, it began taking on corporate governance consulting services, therefore creating a conflict of interest.⁵⁹ Secondly, in addition to a low participation rate, there was one major flaw in the rating process. If a company received a low rating, they were allowed to revoke their contract and

⁵² Ibid., 26.

⁵³ Ibid., 27.

⁵⁴ Ibid., 26.

⁵⁵ Ibid., 26.

⁵⁶ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 300.

⁵⁷ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 300.

⁵⁸ Ibid., 301.

⁵⁹ Ibid., 301.

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either discontinue the rating process or choose not to make the rating public.⁶⁰ Thus, it was difficult to assign poor ratings to companies, defying the purpose of increasing transparency. Despite the fact that many companies did not participate, one could not assume that they had poor corporate governance since many had received high ratings from international organizations such as Asian Development Bank.⁶¹ No other rating and rewards system has been successfully implemented since then, suggesting the highly subjective nature of corporate governance.

Potential Future Reforms

In 2013, the World Bank released a report analyzing Thailand's corporate governance mechanisms. As outlined in the Report on the Observance of Standards and Codes (ROSC), it has defeated many challenges and created a comprehensive corporate governance system.⁶²

The reforms have increased investor trust, protected investor and minority shareholder rights, increased transparency as well as increased board professionalism. The ROSC designated Thailand a score of 82.83 out of 100, with the highest scores in areas of disclosure and transparency.⁶³ Moreover, as shown in Table 2, 62 percent of companies saw that there was an increase in capital, 54 percent saw an increase in long-term capital and 91 percent saw an increase in credibility as a result of better corporate governance.⁶⁴

However, there are certain measures that can still be taken to further improve corporate governance mechanisms:

Protecting Minority Shareholders

While shareholders partake in proxy votes, this measure can be strengthened by providing them with a detailed description of the situation or criteria they are voting on. Shareholders should be given adequate information and documentation to help make decisions on voting issues, which can be achieved through intervention by the SEC or SET. These organizations can implement a set of specific disclosure rules, focusing on effective Annual General Meetings notice or clear proxy processes. This will not only increase transparency of the direction of the company, but also gives shareholders a voice.

Furthermore, a system or regulation can be developed and implemented to allow smaller shareholders to influence board composition. For example, in the US, small shareholders are allowed to raise the concern of ineffective board members, and provide a new slate of candidates. Though they must incur costs themselves, and majority shareholders can easily override this in certain circumstances, the option still exists.

⁶⁰ Ibid., 301.

⁶¹ Obeua S. Persons, "Corporate Governance in Thailand: What Has Been Done since the 1997 Financial Crisis?" *International Journal of Disclosure and Governance Int J Discl Gov* 3.4 (2006): 301.

⁶² "Thailand Makes Significant Improvements in Corporate Governance Practices."

⁶³ Ibid.

⁶⁴ Chatrudee Jongsureyapart, Victoria Wise, and Ali Yafian, "Post-crisis Corporate Governance in Thailand: Banking Sector," *Banks and Bank Systems* 7.1 (2012): 47.

Growth of Equity Markets along with Rules and Regulations for Market Participants

The growth of the equity markets will be crucial to Thai corporate governance in the coming years. There may be an increase in retail, institutional, and foreign investor participation as they will be able to provide capital to Thai companies more effectively⁶⁵. As a result, they will require better corporate governance practices from these companies. As this grows, it is essential that rules and regulations be developed for market participants as well as the SEC and SET to ensure compliance, avoid conflict of interest, and avoid favoring certain companies.

More Independent Board of Directors

While there has been a progression towards a more balanced board of directors, companies must better abide by the regulations put forth. For example, complying with the definition of independent directors and including those who are clearly favored by major shareholders or executives, despite being non-internal employees who have a personal relationship. The SEC and SET who have set the regulations can modify and refine the definitions as well as monitor such activities. Another solution would be to implement board committees, or supervise the role of the audit committee to make sure that they are carrying out their duties effectively. This can be attained by increasing education, providing workshops, and reports on the needs of board committees. By making these changes, it will result in more effective board structures, allowing for new perspectives, generation of ideas as well as enhanced transparency.

Laws and Regulations Enforcement

While many laws and regulations have been implemented, it is vital that these are closely monitored and enforced by the government, the SEC and the SET, in order to improve corporate governance. This requires that the SEC and the SET are transparent and avoid working with companies or departments of companies that may lead to a conflict of interests.

Increased Disclosure and Transparency

While there has been a shift to increase corporate transparency, details such as executive and director compensation and shares held by directors should be accurately disclosed. Regulatory interventions such as requiring shareholder approval for top management and director remuneration policies can also be implemented. This will attract foreign investors, increase the credibility of the company, and enhance accountability, as well as align the roles of the management and directors with the shareholders. This will further motivate companies to develop and monitor their own remuneration policies, potentially introducing the idea of performance-linked pay or implementing compensation committees⁶⁶.

Conclusion

Corporate governance structures have drastically changed in Thailand since the financial crisis of 1997-98. Through the efforts of the SEC, the SET, and Thai government, stricter rules have been put into place in order to fix the problems of concentrated ownership, poor capital markets, moral hazard, and

⁶⁵ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 39.

⁶⁶ Thai Institute of Directors Association, "Strengthening Corporate Governance Practices in Thailand," (*Joint Report of the Thai Institute of Directors and McKinsey & Company Thailand* 2002), 44.

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shareholder protections. The changes have been clearly based on the Anglo-American model of corporate governance, where high levels of disclosure prevent the potential of asymmetric information between inside managers and outside investors. While the efforts have been valiant, there are certainly still lingering issues that remain from the pre-1997 era. Boards of directors still lack the necessary independence, capital markets are weak, preventing their use as a disciplinary mechanism, and perhaps most importantly, the rules and laws that have been implemented need to be more strictly enforced. With all this being said, Thailand has made drastic, positive changes in order to prevent another catastrophic meltdown as well as provide sustainable growth on a solid institutional foundation.

Appendix

Table 1: Change in Disclosure and Transparency⁶⁷

Information Disclosed	Website		Annual report		No disclosure	
	Yes	No	Yes	No	Yes	No
Semi-annual financial statements	79.8	20.2	24.0	76.0	7.8	92.2
Quarterly financial statements	84.6	15.4	21.5	78.5	4.6	95.4
Consolidate financial statements	69.5	30.5	80.9	19.1	2.3	97.7
Major share ownership and voting rights	47.4	52.6	88.0	12.0	2.3	97.7
Self-dealing (related-party) transactions	43.5	56.5	90.1	9.9	4.6	95.4
Names of board members	63.7	36.3	94.1	5.9	0	100.0
Directors selling or buying of company shares	45.1	54.9	56.6	43.4	18.0	82.0
Resume/background of directors	40.7	59.3	91.9	8.1	2.2	97.8
Remuneration of directors	29.6	70.4	93.3	6.7	4.4	95.6
Fees paid to external auditors, advisors, and other related parties	26.9	73.1	88.1	11.9	9.0	91.0
Major contingent liabilities such as cross-guarantees of debt	27.9	72.1	86.0	14.0	10.1	89.9
Policies on risk management and the company objectives	23.7	76.3	95.8	4.4	3.7	96.3
Significant changes in ownership	27.6	72.4	69.6	30.2	21.6	78.4
Material issues regarding stakeholders	22.5	77.5	79.1	20.9	16.3	83.7
Governance structures and policies	33.1	66.9	91.7	8.3	6.0	94.0
Extent to which corporate governance practices conform to established standards	27.5	72.5	91.6	8.4	7.6	92.4

Table 2: Benefits of Corporate Governance⁶⁸

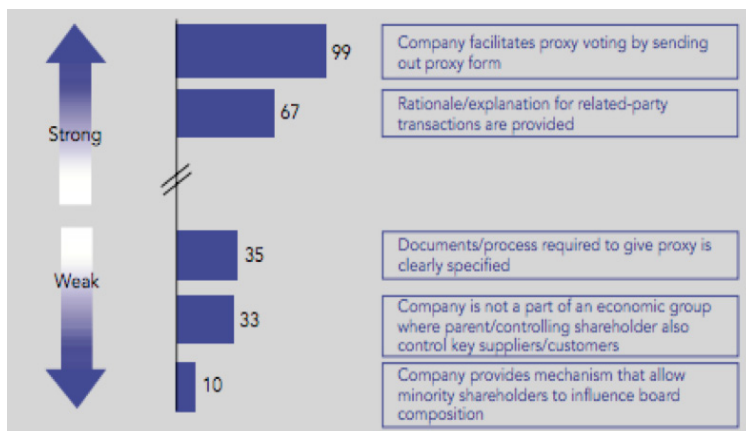
Benefits of corporate governance	Yes		No		Total	
	N	%	N	%	N	%
Improved access to new capital	83	62	50	38	133	100
Increased number of long-term investors	72	54	61	46	133	100
Increased share liquidity	18	14	115	86	133	100
Reduced share price volatility	32	24	101	76	133	100
Reduced political or regulatory intervention	15	10	118	90	133	100
Reduced cost of capital	27	20	106	80	133	100
Increased credibility	121	91	12	9	133	100
Increased price/earnings ratio	38	28	95	72	133	100
Increased share value	57	43	76	57	133	100

⁶⁷ Jongsureyapart, Chatrudee, Victoria Wise, and Ali Yafian. "Post-crisis Corporate Governance in Thailand: Banking Sector." *Banks and Bank Systems* 7.1 (2012): 40-49. Web. 46.

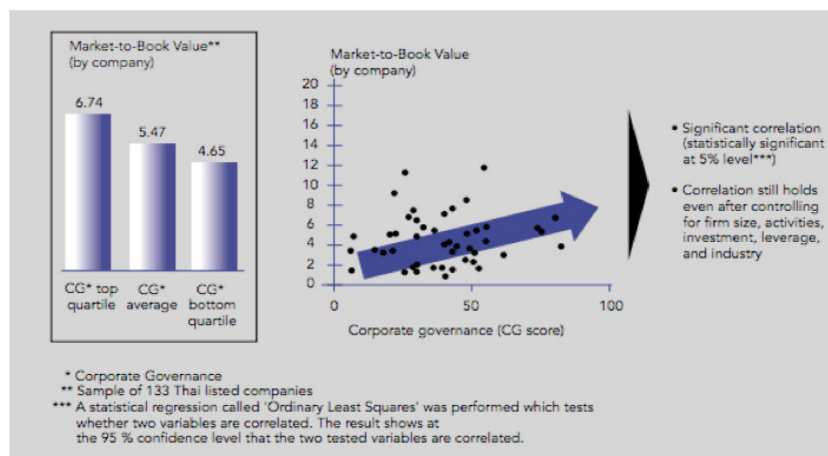
⁶⁸ *Ibid.*, 47.

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Graph 1: Minority Shareholder Protection⁶⁹



Graph 2: Market-to-Book Value vs. Corporate Governance Ratio⁷⁰



⁶⁹ Chatrudee Jongsureyapart, Victoria Wise, and Ali Yafitian, "Post-crisis Corporate Governance in Thailand: Banking Sector," *Banks and Bank Systems* 7.1 (2012): 46.

⁷⁰ *Ibid.*, 47.

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THE RISE OF THE FAR RIGHT: A SUBREGIONAL ANALYSIS OF NATIONAL FRONT SUPPORT IN FRANCE

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This paper examines the recent success of the French far right party, the National Front, by analyzing the effects of indicators of out-group presence, unemployment, and low-skilled labor on vote share of the National Front party for the 2007 and 2012 presidential elections in France. I focus predominately on the 2012 presidential election, while comparing results from analyses of the 2007 election. I incorporate an additional analysis that examines the change between the two elections in order to better understand what drives changes in vote share for the National Front between years. Two different levels of analysis were included for each model: a regional analysis as well as a municipal one. I find that while upticks in unemployment and low-skilled labor increase support for the National Front, immigrant share, and the accompanying indicators of immigrant presence decrease support for the National Front party at the municipal level. The effect is not statistically significant at the regional level. However, the presence of Muslims is correlated with increases in National Front support at the regional level, though the effect is not statistically significant. This suggests that despite the party's vehemently anti-immigrant rhetoric, economic and socio-demographic indicators are the most consistent predictors of National Front support.

Introduction

"They say we're in a democracy, but authorities refuse to show the real figures on how many immigrants there are. There are probably 6-7 million Muslims here already, plus additional immigration on a massive scale each year. This is an organized replacement of our population. This threatens our very survival. We don't have the means to integrate those who are already here. The result is endless cultural conflict" (Marine Le Pen, 2011).

Far right parties and their success have been at the forefront of the Western European political arena since the 1980s (Ellinas 2015). These parties have managed to make more "electoral inroads" across countries in a shorter period of time than any other party family (Ellinas 2015). Notorious for their unabashed xenophobia and nationalism, far-right parties pose a unique dilemma to a continent haunted by the specter of World War II. As Europe's most successful far-right political force, the National Front is no exception. Literature on the National Front (FN), dates back to the late 1980s, after the party's infamous

founder and leader Jean-Marie Le Pen shocked the nation by winning ten of the 81 French seats in the 1984 elections to the European Parliament (Fysh & Wolfreys 1992, 309). The party has steadily transitioned from a largely ignored extremist party to the third largest political force in France (Fysh & Wolfreys, 309). More recently, it has undergone a notable process of “dédiabolisation”—a sort of rebranding—and legitimization since Jean-Marie Le Pen’s more moderate daughter, Marine, took the helm in between the 2007 and 2012 presidential elections (Robins-Early 2015).

Due to its increased relevance in recent years, this paper establishes a more concrete understanding of FN, by analyzing the effects of immigrant presence, unemployment, and low-skilled labor on its vote share for the 2007 and 2012 presidential elections in France. I focus on the most recent presidential election in 2012, while comparing the results of 2012 with those of 2007 to check for robustness. I also incorporate an analysis that investigates the change in FN support between the two elections.

FN utilizes rhetoric that capitalizes on native anxieties about immigrants and the changing cultural landscape of France, but the effect of immigrant presence on FN is highly ambiguous. This paper predominately focuses on the xenophobic elements of FN while also examining economic and socio-demographic variables. While the literature is significantly more established with respect to the effect of unemployment rates and socio-demographic variables, such as low-skilled labor, the effect of immigrant presence is unclear and contradictory. I seek to understand first, whether or not immigrant presence has an effect on FN vote share and second, what aspect of foreigner or immigrant presence is deemed particularly threatening to FN voters if this is the case. France’s laws pose unique obstacles to the study of xenophobia or religious discrimination, because they prevent the collection of any ethnic or religious data. Religion has not been recorded in national censuses since 1882 and official statistics offer limited information about communities linked to immigration (Simon 2007, 51).

My research shows that while increases in unemployment and low-skilled labor increase support for FN as expected, immigrant share and the accompanying indicators of immigrant presence decrease support for FN at the municipal level. The effect is not statistically significant at the regional level. These results are highly consistent regardless of which year—2007 or 2012—is being studied. In analyses that include crime rate and poverty rate as controls at the regional level, neither control results in a statistically significant effect on FN support. An additional analysis examining the differences between elections shows that the change in immigrant presence shows no statistically significant effect on the change in vote share for FN. However, change in the unemployment rate and change in low-skilled labor both positively effect change in FN support. These results suggest that despite FN’s attempts to gain votes by demonizing immigrants, the effect of immigrant presence as a whole does not drive support for FN. There is, however, evidence that Muslim presence does increase support for FN at the regional level. This will be addressed in greater detail later. Based on the results of this analysis, I suspect that FN support comes predominantly from demographically defined groups predisposed to vote for FN (low-skilled labor), voters disillusioned with a political system that has failed to ameliorate economic stagnation, and voters who are more likely to perceive Muslims as a threat to native culture.

While my analysis focuses specifically on France, the recent success of FN fits into a larger political narrative in Western Europe. Though extreme, right-wing parties may differ from each other in terms of their precise ideologies, they belong to the same party family and can each be treated as members of a larger group (Arzheimer & Carter 2006). This classification has important implications for my analysis

because it suggests that FN fits into a larger pattern of right-wing extremism in Western Europe.

Background

Founded in 1972, FN did not become a political force until European elections in the mid-1980s. By the end of the 1980s, there was already an established literature attempting to explain its success (Lubbers & Scheepers 2002). At its inception, FN was an extremist party with fascist roots that soon became France's largest nationalist force (Shields 2007). Today, FN is a socially conservative, economically protectionist and nationalist party. Since the early 1980s, targeting immigrants has been at the forefront of FN's political platform (Shields 2007). Over the years, FN founder Jean-Marie Le Pen, notorious for his belligerent nationalism and anti-Semitism, has often come under attack for his extremely controversial rhetoric. In 1987, he referred to the Nazi gas chambers of the Holocaust as a "detail of history" (Fysh & Wolfreys 1992). However, FN of today has become a veritable force in the French political arena as Marine Le Pen has softened the openly racist rhetoric of her father in an attempt to rebrand FN as a conservative, populist party, and shift away from the party's controversial image (Chabal 2015). In 2013, Le Pen threatened to sue any media outlets or journalists that referred to her party as "far right" (Todd 2013).

Nonetheless, FN still carries the torch of its xenophobic forbearers. Leading up to the 2012 presidential election, Marine Le Pen made clear her preference for certain immigrant groups over others, saying, "in the old days immigrants entered France and blended in. They adopted the French language and traditions. Whereas now entire communities set themselves up within France, governed by their own codes and traditions" (Stadelmann 2014). While Marine Le Pen has tempered the rhetoric of her father, she invited criticism in 2010 for comparing Muslim prayers in the streets to Nazi occupation (Henderson 2013).

One aspect of FN's electoral strategy that has gained importance in recent years is the Euro-skeptic vote, but issues of immigration and the economy remained Le Pen and the party's predominant focus prior to the 2012 election (Stadelmann 2014). Concerns over high immigration remain a significant focus of FN's current political platform. In fact, the political platform of FN, which can be found on the party's website, goes so far as to propose a 95 percent reduction in legal immigration in five years.

Despite a grossly unrealistic immigration policy, FN continues to make unprecedented gains. In 2002, Jean-Marie Len Pen won 5.50 million votes in the presidential election (Shields 2007). Between the 2007 and 2012 presidential elections, FN increased its average vote for the first round elections in mainland France from 11.20 percent to 19.10 percent. In 2014, FN won the European Parliamentary election for the first time ever, under the guidance of Marine Le Pen, and achieved its best results in municipal elections. A poll conducted in January of 2015 by the polling agency French Institute of Public Opinion (IFOP) shows that Marine Le Pen is poised to top the first round of the 2017 presidential election with 30 percent of the vote (Sharkov 2015). While her success in the second round is highly unlikely, the growing success of FN makes understanding its recent upward trajectory of added importance.

Literature Review

Theory

While it is true that large majorities of the French electorate have misgivings towards immigrants

(revealed through surveys), it is uniquely FN supporters who give this factor such priority in determining how they vote (Schain 1987). Fundamental to understanding the interaction between immigrants and native populations are competing theories that address the effects of contact with immigrants. While there are many theories that address prejudice towards out-groups, this paper will focus on theories that look at the propensity of voters to view immigrants as a threat, economically, socially, or culturally. This is because the “threat” of the out-group is the narrative around which FN frames its animosity towards immigrants and is the methodology on which this paper is based.

Literature distinguishes between native in-groups and ethnic out-groups, framing tension between the two. Integrative theory broadly states that, “when people are afraid or feel psychologically threatened by others, they will develop negative attitudes toward them” (Kamiejski et al. 2012, 491). In the chapter discussing ethnic tension in France in *Handbook of Ethnic Conflict*, Kamiejski, Oliveira, and Guimond cite numerous studies that link this theory to prejudice against immigrants (491). One such study is that of Stephan & Stephan, which distinguishes between the “realistic” threat, originating in realistic group conflict theory, and the “symbolic” threat of out-groups, whereby perceived differences in beliefs, norms, and values increase tensions between groups (Stephan & Stephan 2000, 25).

Realistic Conflict theory is widely cited in literature investigating FN. Established in the Robbers Cave studies, which found that increasing competitiveness between groups exacerbates hostility between them; Realistic Conflict theory forms the basis of many studies on far-right parties (Lubbers & Scheepers 2002; Rojon 2013). In *Handbook of Ethnic Conflict*, Albert and Landis refer to Realistic Conflict in its simplest form as prejudice towards an out-group that is exacerbated when competition is high—regardless of whether it is real or perceived—due to the in-group’s sense of a threat (Albert & Landis 2012, 5). In the context of far-right parties, Realistic Conflict theory claims that immigrants and natives are in competition for limited resources, and therefore, introducing immigrants—the out-group—to a native population—the in-group—causes increased support for right wing, anti-immigrant parties to grow. Based on this logic, out-groups are more likely to be targeted when economic conditions worsen or when resources are scarce (Lubbers & Scheepers 2002).

However, as Kamiejski et al. point out, Realistic Group Conflict theory also speaks to animosity that may arise between natives and immigrants due to economic and political concerns rather than cultural or ethnic prejudices. Although ethno-racial tensions may be worsened due to the increased competition for resources, it is evident that prejudice towards immigrant groups is not preconditioned only by economic difficulties. For this, the authors refer to Integrative theory and the “symbolic threat” of immigrants. The “symbolic threat” suggests that immigrant groups are not indistinguishable and that some may be deemed more threatening by natives than others. This theory is particularly relevant with regards to Muslims in France, affirmed by the fact that Marine Le Pen so frequently targets Muslim immigrants as a particularly pernicious threat to French culture, with values that are incompatible with the rest of French society.

In stark contrast to Integrative theory and Realistic Conflict theory is the Contact hypothesis or theory. Kamiejski et al. cite Serge Guimond’s *Social Psychology: A Multicultural Perspective*, in which he affirms that those who display prejudice towards immigrants often have minimal contact with them (Guimond 2010). Contact theory proposes the opposite hypothesis to the Realistic Conflict theory by claiming that contact with foreigners reduces tensions between native and foreign groups. Contact theory implies there will be less support for right-wing parties in areas with more immigrants. Several studies

support Contact theory, particularly at the individual level of analysis (Fetzer 2000; Perrineau 1989; Rojon 2013).

Immigration Indicators

Historically, analyses attempting to explain support for FN have focused on either the presence of immigrants as the main independent variable, or on variables associated with a high immigrant presence, such as crime rate. However, the results of these analyses are highly mixed. Many analyses do not find a direct correlation between immigration-related variables and FN support (Beauzamy 2013, 179). Some evidence suggests that compared to all electorates, FN uniquely increases its support in areas where there are more immigrants present (Lubbers & Scheepers 2002). However, other authors argue that racism existed in France prior to the creation of FN, and maintain that physical proximity to immigrants is by no means a necessary condition for hostility towards them (Fysh & Wolfreys 1992).

It is important to note that the individual level chosen for analysis has critical implications. Analyses have shown that at the individual level, the relationship between the number of immigrants and support for FN is negative, while the relationship at a greater level of aggregation is positive (Rojon 2013). The positive relationship at the regional level suggests that media plays a role, especially considering those in small communes are more likely to vote for FN if located in regions with a high immigrant population (Rojon 2013). The negative effect of immigrant presence on FN support at the individual level could also be an artifact of self-selection on the part of immigrant communities. It is unlikely that immigrants would move to an area where hostility towards immigrants is high. Similarly, it is possible that areas that have an influx of immigrants also have an exodus of xenophobic voters. However, Mirna Safi finds little support for “the white flight” effect in France, suggesting that voters do not move out of areas just because immigrants move in (Rathelot & Safi 2013). A regional analysis should account for the self-selection bias of immigrants since both immigrant-friendly and immigrant-hostile communities are situated within larger geographical areas. It is important to compare voting behavior at both the macro and micro level in order to better understand how exactly voters respond to immigrant presence.

In explaining the perceived “threat” of immigrant groups, it is essential to reassert that certain immigrant groups are perceived as more of a “threat” to French society than others. The 1970s marked the transition of the demographic nature of immigration in France from primarily Portuguese and Spanish immigrants to immigrants from North Africa. This transition increased anxieties regarding the ability of North African immigrants to integrate into French society (Kamiejski et al. 2012, 484).

Second-generation immigrants are more likely to identify as French than the first-generation; there is a fast economic and cultural integration process between first and second-generation immigrants. Studies affirm certain ethnic groups have struggled and continue to struggle in France (Algan et al. 2010). According to an index of integration created by Mirna Safi, Algerian, Moroccan, and Sub-Saharan African immigrants display the greatest socioeconomic difficulties, and generally, the lowest overall index of integration compared with Turkish, Portuguese, Southeast Asian, and Spanish immigrants (Safi 2009). The religion of immigrants may explain these discrepancies. Studies show that Muslim immigrants demonstrate higher attachment to their culture of origin and lower identification with the host society than their Christian counterparts, and that these differences do not decrease with the time immigrants spend in France (Adida et al. 2012). In addition, while cultural and economic integration may be swift between first

and second-generation immigrations, religion has a strong persistence across generations of immigrants (Algan et al. 2010). The failure to integrate could be explained by discrimination against Muslims that is particularly clear in the French labor market. Despite its emphasis on secularism, the “myth” of a Christian France persists today (Adida et al. 2010).

Fear of North African immigrants has been routinely demonstrated through surveys. Kamiejski et al. refer to surveys in which North Africans, rather than black Africans, are the main target of prejudice and discrimination in France. While 38 percent of the population feels that “there are too many Blacks in France,” 63 percent of the population agree that “there are too many Arabs in France” (Kamiejski et al. 2012, 485). Lower assimilation of Muslims can be explained by French discrimination against those who identify as such, which contributes to mistrust of French citizens and French institutions (Adida et al. 2012). The lack of assimilation and discrimination directed towards Muslim immigrants can explain why FN so frequently targets groups from Africa and North Africa in particular.

Regardless of the specific immigrant group, any form of animosity towards immigrants is likely made worse by the “ethnic clustering effect.” Immigrants tend to move out of communes where their co-ethnics are numerous at a considerably lower rate. With limited mobility of both immigrant and native populations, conflicts over resources are likely increased, while ethnic clustering increases the perceived threat of immigrant groups by natives (Rathelot and Safi 2013). Evidence suggests that the presence of immigrants correlates with lower National Front support. However, it is also clear certain immigrants pose more of a threat than others to native French populations, likely due to their perceived failure to integrate.

Political/Socio-demographic Indicators

Regarding political variables, many scholars have emphasized the role of FN as a protest party, capturing dissatisfaction with the general state of French politics or politicians. Empirical evidence does not necessarily support this claim. Lubbers and Scheepers find that primarily non-conformist, authoritarian, and unfavorable out-group attitudes uniquely contribute to support for FN, while identification with France and political dissatisfaction exists to an equal extent in other electorates. While political dissatisfaction is important, it is not the sole explanation for FN support, disproving the hypothesis that FN exists solely as a protest party (Lubbers & Scheepers 2002).

Socio-demographic variables serve an important role in explaining FN support and can inform political attitudes. Lubbers and Scheepers find, using surveys for an individual analysis, those who embody non-conformist and authoritarian attitudes are those with lower education or income, young people, lower white-collar workers, and police and military employees, all of whom represent a higher percentage of FN supporters. Arzheimer and Carter point out the general socio-demographic groups that have proven more likely to vote for extremist right-wing parties: men, both younger and older voters, those with lower levels of education, and shopkeepers, artisans, and small-business people. The results show that being male and being young (under the age of 25) has a substantial impact on extremist, right wing voting. The authors hypothesize that this effect is due to the competition of these groups with immigrants over welfare, as well as lack of social ties. Gender and education have the highest impact on propensity to vote for extremist right-wing parties, while age and class have a smaller impact. It is believed that those with lower education compete more with immigrants for jobs and those with higher levels of education are exposed to more liberal values (Arzheimer & Carter 2006).

Economic Indicators

Surprisingly, the impact of economic variables, such as unemployment, is ambiguous. While some analyses find that the rise of unemployment does not affect FN support (Lubbers & Scheepers 2002), a general analysis of extremist right-wing voting in Western Europe finds that unemployment has a significant, negative effect on extreme-right voting, contrary to expectations (Arzheimer & Carter 2006). A separate analysis of Western Europe finds that higher rates of unemployment provide a favorable environment for extreme right support (Jackman & Volpert 1996). Sebastian Rojon finds that while unemployment by itself increases support for FN, the presence of immigrants coupled with unemployment has the opposite effect. He finds that in communes, the negative effect of the presence of immigrants is even stronger when accompanied by high unemployment. At the department level, the positive effect of immigrants becomes negative when there is high unemployment (Rojon 2013). This conclusion makes little sense and will need to be explored in my analysis as France continues to be mired in a sluggish economy.

Theory & Hypotheses

Because this analysis considers a more recent period that has yet to be fully studied, I do not assume that the relationships between variables formerly demonstrated still hold. That being said, my hypotheses align with previous studies that have addressed the topic. Continuing the trend of current research on the topic, I look at the effect of immigrants and indicators of their presence, economic variables, and socio-demographic indicators on support for FN. To begin with the first category, my predictions are a direct response to the rhetoric of FN. Given that the party so adamantly labels immigrant groups as out-groups, I predict that the premises of realistic conflict theory hold true.

H1a. As the presence of immigrants increase, so too does support for FN at both the department and commune level.

Past papers on the topic have relied on measures of overall immigrant presence in order to account for prejudice towards immigrants in driving FN voting. However, there are two key issues with relying solely on this variable to understand voting behavior. The first is that it is unlikely for a native French person to have exact knowledge of the number of immigrants present in his commune or department, particularly if he does not interact with immigrants on a daily basis. The second is this measure fails to identify crucial distinctions among immigrant groups. A 2010 study on population diversity in France, conducted by the National Institute of Statistics and Economic Studies (INSEE) and the National Institute for Demographic Studies (INED), finds that 42 percent of immigrants will become French and 97 percent of descendants of immigrants born in France have French nationality (Simon 2010, 115). The presence of immigrants variable does not include the children of immigrants who may be deemed equally threatening as immigrants to native French voters. In addition, according to another study by INSEE, half of immigrants to France in 2012 were from Europe. Recently, an increasing number of immigrants to France are from other European nations (INSEE Première). The presence of immigrants variable likely does not capture anxiety about specific immigrant groups.

Immigrant groups vary in their perceived degrees of threat. Therefore, it is essential to provide

alternative measures of immigration that distinguish between the economic and cultural nature of the threat. These measures aim to “unpack” the immigrant variable to understand what aspects of the out-group remain the most threatening. I introduce indicators of immigrant presence in order to gain a better understanding of how immigrant presence affects voting behavior. These indicators are unmistakable signs of immigrant presence.

H1b. I predict an increase in social housing implies an increase in support for FN.

To address the economic threat of immigrants, I included a variable in my analysis that not only suggests a clear indication that immigrants are present, but directly engages with FN’s stance that immigrants poach the resources of the state. In her analysis of immigration and conflict in Europe, Dancygier argues that immigrant-native conflict is more likely within countries with a strong social welfare system because the allocation of competitive resources is decided by the state rather than by market forces. The relatively open citizenship laws in France give many immigrants and their offspring “formal access” to these benefits and to the electoral arena. FN capitalizes on this occurrence by portraying immigrants as burdens to an “overstretched welfare state” (Dancygier 2010, 266-267). Invoking economic arguments, FN claims immigrants cost the nation 70 billion euros a year both in their platform and in the media. A prominent component of government spending on immigrants is public housing, making housing a major issue at the forefront of immigration politics (Hein 1991). *Habitation à Loyer Modéré* (HLM) is a system of social housing in France designed to provide subsidized housing for low-income people. Given that immigrants have a severe disadvantage in the housing market, social housing is a key form of social welfare for immigrants in France. While not all inhabitants of HLM are immigrants, migrant communities tend to live in HLM more frequently than natives (Fougère et al. 2013; Simon 2010). This is particularly true for migrants from Turkey, Morocco, Southeast Asia, Algeria, Tunisia, and Sub-Saharan Africa (Fougère et al. 2013). Furthermore, the HLM is often associated with non-native groups and high crime rates, particularly in the media. The participants in the 2005 riots, a highly publicized event, were predominately young immigrants or children of immigrants living in social housing projects. Much like public housing is clearly identifiable in the United States, I propose that HLM is an indicator of immigrant presence.

H1c. I assume that the tendency to view Muslim immigrants as a particularly dangerous out-group means that an increase in indicators of Muslim presence, in this case Islamic religious sites, increases support for the far right.

While FN targets immigrant groups as a whole, the party is particularly adamant about linking immigrants of Muslim origin to high crime rates and to the disintegration of French culture. Research supports the notion that Muslim immigrants in particular are considered threats to native culture; a poll conducted by French publication *Le Figaro* in October 2012 shows 43 percent of French people feel that Islam is a threat to French national identity (Guénois 2012).

H1d. I predict that at the department level, as presence of foreigners from predominately Muslim countries increase, so does FN support.

Abiding by the same logic, I include a measure for foreigners from predominately Muslim countries. Though not an indicator of immigrant presence, I suspect that foreigners from predominately Muslim countries are perceived as a threat, regardless of what their actual religion may be. This implies a certain level of ethnic discrimination. While I cannot say for certain that whether the perceived threat is driven by ethnic or religious anxiety, this measure provides an important window into which groups are deemed most threatening by FN voters.

H2a. In keeping with the predictions of Realistic Conflict theory, I predict a positive relationship between unemployment and support for FN.

In regards to economic indicators, unemployment proves to be a driving force in determining extreme-right support (Jackman and Volpert 1996, Rojon 2013). Given that natives and immigrants compete for jobs, higher rates of unemployment likely increase support for FN.

H2b. I predict that high presence of immigrants coupled with high unemployment rates increases support for FN.

While both the number of immigrants and unemployment should be analyzed separately, there is likely a strong link between the two. FN is very vocal, particularly in the context of the recent economic crisis in Europe, about linking immigration and high unemployment. As early as the 1980s, FN featured posters that read, “Two million unemployed is two million immigrants too many” (Dominus 2015). Higher rates of unemployment coupled with large numbers of immigrants likely exacerbate contempt for immigrants and increases support for the far right. Thus,

H3. I predict that as the number of manual workers increases, so does support for FN.

Finally moving on to the socio-demographic indicators, past research has shown that variables such as education level and low skilled labor have an impact on support for FN (Lubbers & Scheepers 2002). Manual laborers tend to have lower levels of education and compete more intensely with immigrants for jobs than the average French person. FN has witnessed a “proletarianisation” of their electorate since the early 1990s (France since the 1970s). The presence of the low-skilled labor variable is meant to serve as representation of socio-demographic groups predisposed to vote for FN due to increased competition with immigrants for jobs.

Data and Methods

Past analyses prove that changing the level of analysis within France produces contradictory results. Although studies that operate at the individual level using neighborhoods and towns (Rojon 2013, Perrineau 1989) have found a negative relationship between presence of immigrants and support for FN, this does not necessarily hold true at the department level. Lubber and Scheepers find a positive relationship between the presence of immigrants and FN support at the department level. As the level of

analysis has been shown to be an important factor, this is further considered in my investigation (Lubber & Scheepers 2002).

The primary administrative divisions of France include the regions (there are 21 excluding territories outside of mainland France), the departments, and the communes. My analysis compares a departmental analysis with that of a communal one. For the purposes of my investigation, the highest level of aggregation includes the departments, which are nested within regions. There are 101 departments in France, five of which are overseas, making 96 in metropolitan France. However, I do not include Corsica, which counts as two departments, and instead focus only on departments in mainland France, making the total number of departments analyzed 94. As for the individual level of analysis, I chose the lowest administrative division in France, the commune, and looked at only communes in mainland France. Communes are nested within departments and are the equivalent of municipalities in the United States. Notably, they vary greatly in size. A commune can be a city, such as Paris, or a 10-person hamlet (Rojon 2013). There are approximately 36,552 communes in metropolitan France, the vast majority of which are very small. The median size of a French commune is approximately 400 people (Le Gléau 1997, 7), which sets France apart from the rest of Europe. I refer to this as the “tiny commune skew,” which will be addressed later in the analysis.

The timeframe of this analysis was chosen in order to better understand the current day rise in FN popularity. While the bulk of this analysis will focus on the 2012 presidential election, it is necessary to have a frame of reference. Between the 2007 and 2012 presidential election, an economic crisis hit most of Europe, and France was not immune to its consequences. I compare the results of the 2012 analysis with those of 2007 to evaluate the robustness of the results.

Dependent Variables

The data for both the 2007 and 2012 elections was obtained online from the Ministry of the Interior (data.gouv.fr). The dependent variable used includes the vote share of FN calculated as the total number of votes cast for FN in the presidential elections divided by total votes cast at both the department and commune level.

Independent Variables

Most independent variables were obtained from the National Institute of Statistics and Economic Studies’ population censuses (INSEE). The number of immigrants, number of unemployed, number of workers, number of HLM, and the population at the commune level were taken from the 2007 and 2011 population censuses. I was then able to aggregate all indicators to the department level by adding up the values of all communes within specific departments. To create the independent variables at both the department and commune level, I created variables for immigrants, manual laborers and HLM per 1000 people. INSEE provides the unemployment rate at the department level and I was able to calculate unemployment rate at the commune level by dividing the number of unemployed (aged 15-64) by the economically active population (aged 15-64) and multiplying by 100. INSEE also provides unique datasets for 2011 at the department level that allowed me to include variables in my department analysis not available at the commune level. One dataset breaks down percentage of foreigners of the total population by country of origin in 2011. I added the percentages of foreigners from Algeria, Morocco, Tunisia, and Turkey in order to create a variable for foreigners from predominately Muslim countries.

The data on Muslim religious sights comes from a database (trouvetamosquee.fr) of mosques and prayer rooms in France. Created in 2009, the website lists the number of mosques and prayer rooms per department, as well as the address of each individual mosque or prayer room and information about the mosque, such as its capacity and surface area. The website is largely catered towards French Muslims, posting articles about instances of Islamophobia and state surveillance of mosques under its “News” section. For the purposes of my analysis, I labeled both mosques and prayer rooms as mosques. The mosque variable is a measure of mosques per 1000 inhabitants. It is important to note that there are limitations to this data. Any person who wishes can add a mosque or prayer room to the website. This poses obvious issues with the reliability of the data. However, as French law strictly forbids gathering ethnic or religious data, this database provides a unique opportunity to look at the effect of Islamic religious sites on voting behavior, something that has never been done in a previous analysis. As the site is catered towards Muslims in France, one would imagine that those adding mosques to the database are French Muslims hoping to publicize places of worship for the benefit of other French Muslims. The results from the database likely underestimate the number of mosques present in 2012. While the French Interior Ministry estimates that there were around 2,449 in 2012, the database registers 2,217 (Laurent & Pouchard 2015).

Controls

Given that FN frequently blames high crime rates on immigrant groups, I suspect that crime levels play a role in recruiting FN support and should be included as a control in my analysis. Data concerning crime was found using studies conducted by the Institut National des Hautes Études de la Sécurité et de la Justice (INHESJ) for both 2007 and 2011. The crime data used measures the number of thefts, destruction and damaging of property per 1,000 inhabitants. In addition, INSEE provides 2011 data on the poverty rate per department. The poverty rate is an important control because it captures lower levels of education and other indicators that might increase support for FN.

Based on the assumptions of Realistic Conflict theory, one would assume that in more urban environments, people are more likely to vote for FN as there are more immigrants present because immigrant populations tend to concentrate in urban areas. However, given increasing poverty rates, lower education levels, and an increasingly felt social exclusion, the rural population is particularly susceptible to FN rhetoric. Le Pen took advantage of this, targeting the rural vote and vowing to give a voice to the “invisible” leading up to 2012 presidential election (Chabal 2015). I assume that voting behavior between urban and rural areas is fundamentally different due to a cultural and economic divide. In order to control for the four highly urban departments (Paris and the surrounding departments), I created a dummy variable by labeling departments with population density greater than 5000 people per kilometer-squared as (1) and the rest as (0). Following the same logic, I created a dummy variable at the commune level, coding communes as urban (1) or rural (0) using a dataset from INSEE that labels all communes as either urban or rural. INSEE defines urban communes as having a population greater than 2,000 and belonging to a continuous construction zone where there is a maximum of 200 meters between every building.

Descriptive Statistics

Referring to Figure 1 in the Appendix, the descriptive statistics at the department level for 2012 show that immigrant share and low-skilled labor have the highest standard deviations, while that of mosques is very small. A one standard deviation change in department population is like a move from the

department of Rhône (population: 1,740,000 in 2011) in the South-East of France to Paris (population: 2,250,000 in 2011). Referring to Figure 2 in the Appendix, it is clear that there are many outliers. A one standard deviation change in 2012 commune population is roughly like a move from a city the size of Strasbourg (population: 272,000 in 2011) to that of Nantes (population: 288,000 in 2011). Like at the department level, the standard deviation for immigrant share, social housing and low-skilled labor are quite large at the commune level.

Results

Using standard OLS regressions, several different analyses were run, all of which controlled for geographic fixed effects and clustered standard errors. The reason for this is that regions and departments are fundamentally different, varying both economically and culturally. In addition, it is likely that neighboring areas influence one another and that voting behavior in one commune is linked to that of its neighboring communes. I assume both the department and commune samples are not perfectly random. Therefore, regional fixed effects and clustering were introduced at the department level, and departmental fixed effects and clustering were controlled for at the commune level, ensuring unbiased results and controlling for geographic differences within France.

To begin with a macro perspective of voting behavior, the first analysis looks at the 2012 presidential election at the department level, while the second does the same at the commune level. For both levels of analysis, I compare the results of the 2012 election with those from the 2007 presidential election. An additional analysis looks at the change in FN support, as well as the change in key independent variables between the 2012 and 2007 election at both the department and commune level. This second analysis gives insight into what variables drive the increase in support of FN between the 2007 and 2012 presidential elections and controls for a baseline preference of a particular demographic of voters for FN since it is likely that some FN voters will vote for FN regardless of the number of foreigners present in their commune or department.

Department-level Analysis

Table 1: 2012 Department Analyses

	(1)	(2)	(3)	(4)
	FN vote share	FN vote share	FN vote share	FN vote share
Immigrants per 1,000	-0.010 (0.020)	0.061 (0.043)	-0.012 (0.016)	0.051* (0.033)
Mosques per 1,000	44.995** (21.521)	45.651** (20.981)	40.257** (16.429)	40.751 (16.500)
Social housing per 1,000	-0.027 (0.048)	-0.031 (0.043)	-0.029 (0.043)	-0.028 (0.043)
Unemployment rate (%)	0.709*** (0.119)	1.140*** (0.253)	0.624*** (0.166)	1.005*** (0.243)
Immigrants × Unemployment		0.006* (0.004)		0.007** (0.006)
Low-skilled labor per 1,000	0.074*** (0.020)	0.091*** (0.022)	0.073*** (0.020)	0.093*** (0.024)
Population density dummy	-4.501*** (1.281)	-4.290** (1.111)	-3.895** (1.315)	-3.540*** (1.018)
Foreigners from Muslim countries (%)			0.079*** (0.023)	0.076*** (0.026)
Constant	4.434 (9.152)	2.635 (4.163)	3.601 (3.137)	4.156 (3.732)
Regional fixed effects	YES	YES	YES	YES
Observations	94	94	94	94
R-squared	0.890	0.887	0.894	0.909

Robust standard errors in parentheses

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

Note: crime rate and poverty rate are not included in this regression because they are highly correlated with immigrant share and the unemployment rate respectively. However, when Models 1 and 3 are run, replacing immigrant share with the 2012 crime rate and unemployment rate with the 2012 poverty rate, neither crime rate nor poverty rate are statistically significant. Refer to Figure 6 in Appendix.

Model 1 demonstrates that as expected, unemployment rate, low-skilled labor, and number of mosques are all significant and positive, which supports hypotheses (H1c), (H2a) and (H3). Though immigrant share is not statistically significant, mosques per 1000 inhabitants has a definitive, positive effect. Adding one mosque per 1,000 people implies an increase in support for FN of 45 percentage points. While this may seem like an unreasonably large coefficient, it is important to put this in perspective. For example, the department of Ain in the East of France had a population of approximately 600,000 people

in 2012. The results suggest if 600 mosques were built, support for FN would increase by 45 percentage points in Ain. This is extremely unrealistic. There are very few mosques in France compared to other countries in Europe; between 2011 and 2015, only 213 new mosques were built, averaging around 50 new mosques per year in all of France. Therefore, it is extremely unlikely that 50 mosques would even be built in one department. A more realistic example would be to look at an increase in 6 mosques in the department of Ain, which implies an increase of about 0.50 percentage points on FN support holding all else equal. Similarly, a one standard deviation increase in mosques per 1,000 (0.01) would increase support for FN by approximately 0.50 percentage points all else being equal.

Moving on to a substantive interpretation of other variables, a one percent increase in the unemployment rate implies an increase in support for FN of nearly one percentage point holding all else constant at the department level. Using the example of Ain again, assuming that the entire population was actively employed, if 6,000 people lost their jobs, support for FN would increase by approximately one percentage point holding all else equal. There were approximately 400,000 registered voters in Ain during the 2012 presidential election. A one-percentage point increase is the equivalent of an increase in 4,000 votes for FN. A one standard deviation increase in unemployment (1.80 percent) implies an increase of 1.30 percentage points for FN support. Continuing with the analysis, an increase in ten manual laborers per 1,000 inhabitants implies a 0.74 percentage point increase in support for FN, all else being equal. An increase in 6,000 manual laborers in Ain would increase FN support by 0.74 percentage points holding all else constant. A one standard deviation increase in low-skilled labor (21.6 workers per 1,000) implies an increase in FN support of 1.60 percentage points. Finally, when moving from a less densely populated department to a more densely populated department—with a population density greater than 5,000 per kilometers-squared—FN support decreases by 4.50 percentage points. This suggests that support for FN weakens as population density increases.

To gain a better understanding of how increases in immigrant share coupled with increases in the unemployment rate may affect FN support, Model 2 introduces the interaction term between the two. Neither significance nor sign changes for any of the other variables in the regression. The absolute value of all coefficients increases slightly with the exception of the population dummy, which decreases. The interaction term measures the amount of change in FN support with an increase in one immigrant per 1,000 while holding unemployment constant at different levels. Figure 3 in the appendix offers a glimpse of the effect of immigrant share on FN support at unemployment levels ranging from zero percent to 14 percent. These values were chosen because the unemployment rate never exceeds 14 percent at the department level. The results suggest that as the unemployment rate increases, the effect of immigrant share on FN support becomes increasingly negative, refuting hypothesis (H2b). However, the upper bounds of the confidence interval always cross zero, which means that the results for all levels of unemployment are statistically insignificant and no assumptions can be made about the effect of immigrant share on FN support holding unemployment constant at different levels based on these results.

Because France does not collect religious or ethnic data, using a measure of foreign people from predominately Muslim countries gives a sense of how voters respond to an out-group frequently targeted by the media and by FN leaders. Model 3 introduces percent of foreign people from predominately Muslim countries to the regression run in Model 1. The signs and significance of the variables remain the same as in Model 1, with the new variable being both positive and statistically significant as predicted, supporting

hypothesis (H1d). Increasing the percentage of foreigners from predominately Muslim countries by one percent is correlated with an increase in vote share of FN by 0.07 percentage points, holding all other variables constant. Reverting back to the example of Ain, an increase of 6,000 foreigners from Turkey, Morocco, and Algeria implies an increase of approximately one percentage point in the vote for FN (4,000 new votes). A one standard deviation increase in foreign people perceived as Muslim (12 percent) increases vote share of FN by nearly one percentage point.

The final regression Model 4 includes the interaction term. The sign and significance of all the variable coefficients remain the same with the exception of immigrant share, which is significant and positive. However, like in Model 2, while the results suggest the effect of immigrant share on FN support decreases as the unemployment rate increases, the confidence interval crosses zero at all levels of unemployment, meaning that none of the results are statistically significant (Refer to Figure 4 in Appendix).

Figure 7 in the appendix compares the results of the 2012 election with those from the 2007 presidential election, including the same variables but for different years. The results are highly consistent and do not differ in terms of sign or significance. The coefficients for unemployment rate and low-skilled labor are both highly significant and positive, while the coefficient for population density remains significant and negative across years. When the interaction term is introduced, immigrant share becomes significant and positive, while the interaction term remains significant and negative for both years.

Commune-level Analysis

Based on the results from Table 1, it appears that while overall immigrant share does not have a decisive impact on FN support at the department level; presence of Muslim immigrants does. As previously discussed, voters are likely responding to an out-group perceived as particularly threatening to French culture and values. Of the main independent variables, the unemployment rate has the largest effect on FN support, followed by low-skilled labor. This suggests that economic variables play a significant role in garnering support for the far-right and that demographics, such as manual laborers, are predisposed to support FN. To gain a better understanding of the effect of these variables at the individual level, it is necessary to look at voting behavior at the micro level. The commune level analysis includes all variables available at the department level, other than percentage of foreigners from predominately Muslim countries.

Table 2: 2012 Commune Analyses

	(1) FN vote share all communes	(2) FN vote share all communes	(3) FN vote share large communes	(4) FN vote share large communes
Immigrants per 1,000	-0.009*** (0.001)	0.001 (0.002)	-0.034*** (0.004)	-0.020** (0.008)
Social housing per 1,000	-0.014*** (0.002)	-0.013 (0.002)	-0.003 (0.003)	-0.003 (0.003)
Unemployment rate (%)	0.148*** (0.023)	0.193*** (0.026)	0.079* (0.046)	0.151*** (0.041)
Immigrants × Unemployment		-0.001*** (0.000)		-0.001** (0.000)
Low-skilled labor per 1,000	0.025*** (0.002)	0.025*** (0.002)	0.090*** (0.007)	0.090*** (0.006)
Urban dummy	-1.104*** (0.239)	-1.099*** (0.235)	-1.408*** (0.424)	-1.635*** (0.442)
Constant	17.468*** (0.258)	17.031*** (0.286)	11.965*** (0.632)	11.068*** (0.698)
Departmental fixed effects	YES	YES	YES	YES
Observations	36,177	36,177	1,961	1,961
R-squared	0.383	0.385	0.801	0.802

Robust standard errors in parentheses

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

Contrary to expectations, as demonstrated in Model 1, immigrants per 1,000 inhabitants and the corresponding indicators of immigrant presence (HLM and mosques per 1,000) correlate negatively with FN support at the commune level. Immigrants per 1,000 and public housing are both significant beyond the 0.99 confidence level. This suggests that as the number of immigrants, the number of HLM, and number of mosques increase, support for FN decreases. The results show that with all else being equal, an increase in 10 immigrants per 1,000 inhabitants is correlated with a 0.09 percentage point decrease in support for FN. While this effect seems small, a one standard deviation increase in immigrant share (an increase in 50 immigrants per 1,000) implies approximately a 0.50 percentage point decrease FN support, holding all else constant. Likewise, 10 HLM per 1,000 suggests a decrease in support for FN of nearly 0.13 percentage points. A one standard deviation increase in social housing increases support for FN by 0.30 percentage points.

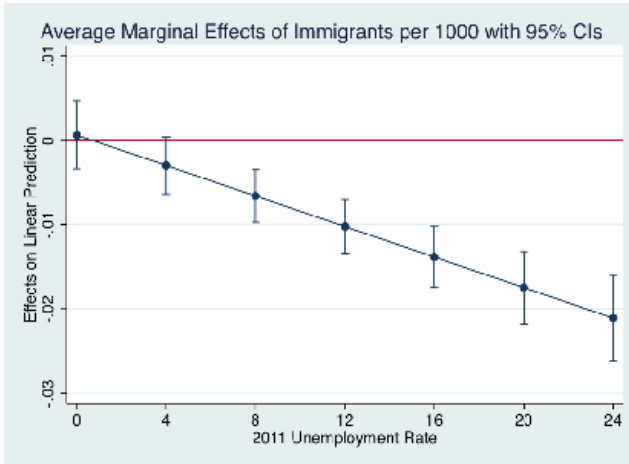
As expected, the unemployment rate and manual laborers per 1,000 variables are statistically

significant and positive. A one percent increase in the unemployment rate suggests an increase in support for FN of 0.15 percentage points, and an increase in 10 manual laborers per 1,000 implies a 0.25 percentage point increase in support for FN, holding all else constant. A one standard deviation increase in unemployment implies a 0.70 percentage point increase in the vote share for FN, while a one standard deviation increase in low-skilled labor is correlated with an increase in FN support of approximately 1.50 percentage points.

Imagine the fictional town of Belleville, which has 5,000 inhabitants, all of whom are employed and none of whom are immigrants. A factory opens, offering job opportunities to 500 immigrants. The arrival of 500 immigrants in Belleville would decrease support for FN by almost one percentage point. If all citizens of Belleville are registered voters, a one percent decrease equates to a loss of 50 votes for FN. Imagine the factory opening creates 500 job opportunities that go to French manual laborers instead of to immigrants. The increase of 500 manual laborers implies an increase in FN support by 2.50 percentage points—an increase of 125 votes. Finally, picture a scenario where a major factory in Belleville closes and 500 Frenchmen lose their jobs: a 10 percent increase in the unemployment rate. 500 newly-unemployed Frenchmen would increase support for FN by 1.50 percentage points, but the transition from a rural commune to an urban one decreases FN support by 1.10 percentage point. All of these results refute hypotheses (H1a, b, and c) and lend support for the Contact Theory. In this analysis, when one variable increases, it is assumed that all other variables remain unchanged. However, in reality, this is rarely the case and, as was shown at the department level analysis, it is necessary to look at the interaction term to observe trends in unemployment and immigration.

Examining Model 2, the results remain consistent when the interaction term between unemployment and immigration is introduced to the Model (1) regression. The variables remain statistically significant and the coefficients remain the same, with the exception of the immigrant share coefficient, which becomes insignificant. Examining the marginal effects of the interaction term gives a better idea of the effect immigration, coupled with unemployment, has on FN support at the commune level.

Graph 1:



The marginal effects show the amount of change in FN support with an increase in one immigrant per 1,000 while holding the unemployment rate constant at different levels. The unemployment rate varies from zero to 24 percent, measured in increments of four percentage points. Based on this graph, immigrant share does not have a statistically significant effect before the unemployment rate reaches approximately five percent. This is because the upper bounds of the confidence intervals cross zero at unemployment levels lower than five percent. However, approximately 90 percent of communes have an unemployment rate greater than five percent, meaning the effects at unemployment rates below five percent are effectively irrelevant. At an unemployment rate of eight percent, the coefficient is (-0.007); at 16 percent, the coefficient is (-0.014) and at 24 percent, the coefficient is (-0.021). This trend suggests that an increase in ten immigrants per 1,000 decreases support for FN by approximately 0.10 percentage points at an unemployment rate of eight percent. At an unemployment rate of 16 percent, the effect of an increase in 10 immigrants per 1,000 is correlated with a decrease in FN support of 0.14 percentage points. Finally, at an unemployment rate of 24 percent, an increase in ten immigrants per 1,000 implies a decrease in FN support by 0.21 percentage points. Based on the marginal effects graph, it is clear that the effect of immigrant presence on FN support is profoundly negative at the commune level. Furthermore, the marginal effects clearly demonstrate that as unemployment increases, the effect of immigrants on FN support becomes increasingly negative, which refutes hypothesis (H2b) and further lends support for the Contact Theory.

To ensure that the commune-level results were not the artifact of “the tiny commune skew,” Models (3) and (4) include the exact same variables as Models (1) and (2), but are only concerned with communes with a population greater than 5,000. This vastly reduces the sample size from 36,177 to 1,961. Nevertheless, the results remain consistent, proving that the results are not driven by the fact that the vast

majority of communes are very small. When looking at a sample of larger communes, the number of public housing is no longer significant, the signs of all coefficients remain the same, and the absolute value of coefficients increase; with the exception of unemployment, which decreases. As a result, all variables, with the exception of the unemployment rate, have a larger effect on FN support when specifically observing larger communes. It is also important to note that when the sample size is limited to larger communes, the R-squared value, which measures the model's goodness of fit, increases from 38 percent to 80 percent. In other words, 80 percent of the variability in FN support is accounted for by the independent variables included in the regression. This suggests that the "tiny commune skew" creates abnormalities in the data, further justifying the inclusion of a model that is specific to larger communes.

Finally, Model (4) includes the interaction term between unemployment and immigration in a sample of larger communes. All variables remain significant in Models (3) and (4). The absolute value of the coefficients for unemployment rate and the urban dummy variable increase, while the absolute value of the share of immigrants decreases and manual laborers remains unchanged. The interaction term continues to be negative, suggesting that as unemployment increases, immigrant share has an increasingly negative effect on FN support. Figure 5 shows the effects of immigrant share on FN support at levels of unemployment ranging from zero to 24 percent. At no level of unemployment does the confidence interval cross zero, meaning that the results are statistically significant at all levels of unemployment. Furthermore, the effect of immigrant share is even more negative than in Model (2).

The results for Models (1)-(4) are consistent. When the "tiny commune skew" is taken into account, immigrant share remains significant and negative, unemployment rate and manual labor share remain significant and positive, and moving from a rural commune to an urban one continues to decrease support for FN. In addition, in the first model when public housing is significant, the coefficient is negative. As an indicator of immigrant presence, the sign of the coefficient should be consistent with that of immigrant share, which is the case. Tables 10 and 11 in the Appendix compare results from the 2012 presidential election with results from the 2007 election. Figure 9 shows that the signs and significance of all variables remain the same for both elections when looking at all communes. The coefficients of all variables also remain fairly constant between elections. Figure 10 compares results from the 2012 and 2007 presidential elections, limiting the commune size to those with a population greater than 5,000. Much like the previous example, the sign and significance of the independent variables do not vary, with the exception of the urban dummy control, which is not significant in the 2007 presidential election analysis, and the unemployment rate and interaction term, which both have more significance in the 2007 regressions than in the 2012 ones. Again, the coefficients do not vary dramatically. Ultimately, the results are consistent, regardless of which presidential election is being analyzed.

Change in FN Support Between the 2007 and 2012 Presidential Elections
Graph 2: Measuring Change in FN Support at the Department Level

	(1) FN vote share change
Immigrants per 1,000 change	-0.030 (0.069)
Unemployment rate (%) change	0.281 (0.353)
Low-skilled labor per 1,000 change	0.007 (0.067)
2007 Immigrant share per 1,000	0.002 (0.010)
2007 Unemployment rate (%)	0.177* (0.010)
2007 Low-skilled labor per 1,000	0.034*** (0.012)
Population density dummy	-3.131*** (0.830)
Constant	2.090 (1.214)
Regional fixed effects	YES
Observations	94
R-squared	0.803

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

As previously mentioned, in order to understand what is driving an increase in FN support between the 2007 and 2012 elections, Graph 2 looks at the change in the key independent variables as well as the change in FN vote share between the two elections. Change in social housing is not included in this regression because it is unlikely that there was significant variation in the number of HLM between the two elections. Therefore, this analysis looks only at the key independent variables: immigrant presence, unemployment, and low-skilled labor. Independent variables from 2007 were included as controls in order to account for baseline levels of immigration, unemployment, and low-skilled labor. This allows for a differentiation between communes whose initial levels of immigration, unemployment, and low-skilled labor were higher than those whose initial levels were lower. For example, compare an increase in four percent in the unemployment rate between two departments. The first department has an unemployment rate of four percent in 2007, which increased to eight percent in 2012, while the second had an unemployment rate of ten percent in 2007 that increased to 14 percent in 2012. One would imagine that voters in the department with the higher pre-existing unemployment rate would feel the effects of the four percent increase more strongly, which would in turn influence voting behavior.

While there is variation in the independent variables between the two election years, it is limited. Therefore, this regression is not a perfect measure of what is driving increases in FN vote share over the years. It remains important to include this regression in order to better understand what is influencing the change in support of FN over time. In addition, it allows for a useful comparison of the 2012 analyses results. The results of the change analysis show that none of the change variables are statistically significant. This suggests that change in the vote share for FN between 2007 and 2012 is not related to change in the number of immigrants, the unemployment rate, or the number of low-skilled laborers. However, the coefficients of the 2007 unemployment rate and 2007 low-skilled labor per 1,000 are statistically significant and positive. This implies that changes in the independent variables do not increase support for FN between elections, but the pre-existing levels of unemployment rate and low-skilled labor do have a statistically significant, positive effect. In addition, the population density dummy is unexpectedly statistically significant, which suggests that specific locations are driving the results.

Table 3: Measuring Change in FN Support at the Commune Level

	(1) FN vote share change all communes	(2) FN vote share change large communes
Immigrants per 1,000 change	0.000 (0.001)	-0.007 (0.005)
Unemployment rate (%) change	0.021** (0.010)	-0.040 (0.024)
Low-skilled labor per 1,000 change	0.006*** (0.001)	0.021*** (0.005)
2007 Immigrants per 1,000	-0.006*** (0.001)	-0.015*** (0.002)
2007 Unemployment rate (%)	0.018 (0.013)	-0.083*** (0.025)
2007 Low-skilled labor per 1,000	0.011*** (0.001)	0.037*** (0.003)
Urban dummy	-0.491*** (0.103)	0.171 (0.894)
Constant	7.599*** (0.153)	5.546*** (0.901)
Departmental fixed effects	YES	YES
Observations	36,168	1,961
R-squared	0.089	0.688

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

Table 3 runs the same model as Graph 2. The only difference is that a second regression is run, limiting the size of the communes to 5,000 or more. More variables are statistically significant in the commune level analysis than the department level analysis because there is more variation in the commune level variables. The standard deviations of all change variables are much higher at the commune level than at the department level. The results in Model (1) are to be expected. Change in unemployment rate and change in low-skilled labor are statistically significant and positive. While change in the number of immigrants is not a factor in explaining change in FN support, the 2007 measure of immigrants per 1,000 is statistically significant and negative. In addition, the 2007 number of low-skilled laborers is statistically significant and positive. The results suggest that an increase in the unemployment rate of one percent between 2007 and 2012 is correlated with an increase in FN support of 0.02 percentage points between 2007 and 2012, all else being equal. An increase in 10 manual laborers per 1000 between 2007 and 2012 implies an increase in FN support of 0.06 percentage points between the 2007 and 2012 presidential elections. Although these results support the previous analyses, the coefficients are small.

As was done in previous analyses, Model (2) limits the communes to those with a population greater than 5,000. In this regression, only change in low-skilled labor is statistically significant of the change variables. An increase in 10 manual laborers per 1,000 from 2007 to 2012 suggests a 0.21 percentage point increase in vote share for FN between the 2007 and 2012 presidential elections. The fact that change in unemployment is no longer significant suggests that voters in small communes are more likely to vote for FN due to changes in the unemployment rate between periods. In this model, all 2007 independent variables are statistically significant. The negative coefficient of 2007 immigrant share and the positive coefficient of low-skilled labor support the previous analyses. In addition, removing all of the most rural communes causes the urban dummy variable to become insignificant, as one would expect. However, the coefficient for the 2007 unemployment rate result is unexpectedly negative, meaning that as the baseline level of unemployment increases, it has a negative effect on FN support over time. This suggests that among larger communes, those with higher unemployment rates are associated with smaller increases or decreases in FN vote share in 2012 versus 2007. Despite the fact that an economic crisis hit France, the results imply that within larger communes, voters were less likely to vote for FN due to higher unemployment rates in 2012 than in 2007.

Discussion

It is important to note that this paper does not present a causal model of FN voting. In fact, few papers on the topic do (Beauzamy 2013, 177). It does, however, show variables that are correlated with FN support in an effort to strengthen and fill gaps in the prevailing literature. The two most notable findings of this paper are the change in results depending on the level of analysis and the clear differentiation between the overall effect of immigrant presence and Muslim presence.

To begin with the first notable finding, while the results are very consistent at both the department and commune level between years, a comparison of department and commune level results is less straightforward. The evidence proves there is robust support for hypotheses (H2a) and (H3). Throughout the investigation, the coefficients for unemployment and low-skilled labor are consistently significant and positive no matter the level of analysis. However, the effects of out-group variables are less clear. At the department level, the immigrant share variable is predominately insignificant and only becomes

significant and positive when the interaction term between immigrant share and unemployment rate is introduced. The interaction term suggests that as unemployment increases in a department, the effect of immigrant share on FN support weakens. However, a closer analysis of the interaction term provided by the marginal effects graphs shows that the interaction term is largely statistically insignificant at unemployment rates below 14 percent. Similarly, the effect of social housing per 1,000 is statistically insignificant for all models at the department level. Based on these results, immigrant share and social housing do not play a significant role in determining FN support at the department level. On the other hand, the commune level results show immigrant share has a definitive, negative impact on FN support, clearly refuting hypothesis (H1a). Likewise, public housing has a negative effect on FN support at the commune level, refuting hypotheses (H1b). This suggests that as natives increasingly interact with immigrant populations, out-groups are viewed as less of a threat. It is important to note that immigrants do not have the right to vote in French presidential elections, so they cannot be driving the negative coefficient of the immigrant presence variables. One possible explanation for the negative correlation between immigrant presence and FN support at the commune level is that the children of immigrants do not vote for FN. However, research on the children of immigrants in France shows that second-generation ethnic minorities are less likely to register to vote and less likely to participate in elections than natives (Brinbaum et al. 2009, 42). The negative coefficient of the urban dummy variable at the commune level and the population density variables at the department level also support the claims of Contact Theory. Rural populations are more susceptible to vote for FN despite having limited contact with immigrants (Chabal 2015). People living in urban environments, where interaction between in-groups and out-groups are more common, are less likely to vote for FN.

The contradictory results between the levels of analysis suggest that while the majority of communes show a negative relationship between indicators of immigrant presence and FN support, when communes are situated within the bounds of a specific department, the aggregate relationship is positive. While some departments show a negative relationship between these indicators and FN support, others show a positive effect. This indicates that there are regional differences in how voters perceive immigrant populations. Comparing the fixed effect coefficients of departments shows a clear east-west divide. To gain a better understanding of regional differences, Figure 11 uses commune level data to compare regions. Running the standard regression of Model (1) of Table 2 for each of the 21 regions provides interesting results. When significant, the coefficients for unemployment and low-skilled labor are always positive, while that of HLM is always negative across regions. Although the effect of immigrants is predominately negative when comparing regions, there are specific regions for which it is positive. The three regions that show a statistically significant positive coefficient for immigrant share are neighboring regions in the southwest of France (Aquitaine, Midi-Pyrenees, and Limousin). This lends evidence to the theory that different regions perceive immigrants differently. Further analysis into regional differences needs to be done in order to provide a substantive explanation for this.

The second notable finding of this study suggests that there is a positive correlation between Muslim presence and FN support at the department level. Both the mosques variable and the percentage of foreign people from predominately Muslim countries variable have a clear, positive effect on FN vote share at the department level. This validates the hypothesis that specific out-groups are perceived as more threatening than others. Two alternative analyses (Tables 7 and 9 in the Appendix) look at the effect of

crime rate at the department level in 2012 and 2007, respectively. Figure 6 also includes the poverty rate. Neither of the two indicators is statistically significant in any of the analyses, suggesting that these are not good measures for predicting FN support. Despite FN often linking immigrants to high crime rates, high crime is not necessarily a driving force in predicting FN support. Similarly, areas with higher poverty are not shown, on average, to have higher support for the far-right. However, the general poverty rate at the department level does not distinguish between in-group and out-group poverty. Areas with more immigrants, where support for FN is very low, often have higher rates of poverty. The unemployment rate of populations of immigrant origin is generally twice that of the general population (Laurence & Vaisse 2006, 32). Therefore, the poverty rate is not a reliable predictor of support for FN.

I find that general immigrant presence, social housing, and high crime rates are not significant predictors of FN support in determining which elements associated with out-groups are most significant to FN voters. However, Muslim presence is a statistically significant predictor of FN support. That being said, this analysis cannot say definitively that animosity towards Muslims increases support for FN. Religion and ethnicity are often closely tied in France and it is unclear if FN voters react to the presence of specific ethnic groups or the presence of Muslims specifically. Further investigation needs to be done in order to distinguish between the effect of certain ethnic groups on FN voting versus the effect of religious groups on FN voting.

Aside from the independent variables that directly engage with the xenophobic nature of FN voting, the remaining indicators are very consistent. The unemployment rate is predominately significant and positive no matter the year, level of analysis, or type of analysis, validating hypothesis (H2a). Similarly, the interaction term, when statistically significant, is always negative throughout analyses. Unemployment is clearly a driving force in increasing votes for FN. However, the results show that voters do not necessarily link unemployment with immigration. The premises of Realistic Conflict Theory suggest that natives and non-natives compete for jobs and that high levels of unemployment increase support for FN for this reason. Likewise, FN frames high levels of unemployment in terms of immigration issues, claiming that immigrants steal jobs from native citizens. If voters were responding to this logic, one would expect to see voters reacting to the level of immigrants in their communities as well as to the unemployment rate. This is clearly not the case. The analysis suggests that voters react primarily to unemployment rather than to the presence of immigrants. This reaction is most likely due to protest voting or the votes of those who have lost faith in the capabilities of the major political parties in France. When unemployment rates are high, voters, unhappy with the current policies, want to send a message to the party in power. When looking at change in vote share between elections, change in the unemployment rate had the greatest effect on change in FN support when looking at all communes. Looking at larger communes only suggests that voting behavior is less responsive to change in the unemployment rate in larger areas in comparison to more rural communes.

Finally, low-skilled labor has a consistently significant and positive effect on FN support at both the macro and micro level, validating hypothesis (H3). Change in manual labor is also the only change indicator that is statistically significant and positive when looking at all communes as well as large communes. In all change regressions, the baseline number of low-skilled labor has a significant and positive effect on changes in FN support. Throughout this analysis, the presence of manual laborers is the most consistent predictor of FN support. Manual laborers are among the groups most directly in competition

with immigrant populations for employment. Therefore, the presence of immigrants has a direct effect on their economic welfare. It is likely that FN support lies with demographically defined groups that directly compete with immigrant groups for employment. Ultimately, research on far-right voting should focus on targeting specific demographically defined groups that are susceptible to FN voting, such as low-skilled labor. An analysis looking at education levels and support for FN would likely yield interesting results. More work could also be done to uncover how FN voting is affected within the low-skilled labor demographic. For example, comparing voting behavior between unionized workers versus non-unionized workers or comparing voting behavior by industry.

Based on the results of this analysis, I suspect that much of FN support comes primarily from baseline popularity within particular demographically defined groups, as well as protest votes due to a lackluster economy. However, voters clearly respond to indicators that Muslim immigrants are present when looking at aggregate indicators. What is demonstrated in the case of France is that while general discrimination towards immigrants likely exists, it is not necessarily sufficient in garnering FN support on the whole. Anxiety towards Muslims or groups voters believe to be Muslim, on the other hand, appears to be a contributing factor driving support for FN.

Competing political parties in France should not underestimate FN. There is no doubt that FN has undergone a process of legitimization and made significant gains as French voters become increasingly disillusioned with the political system. Political parties hoping to counteract the recent gain in FN popularity should primarily focus their campaigns on economic issues and target groups predisposed to vote for FN, such as those living in rural communities and low-skilled laborers. Improving faith in the French political system and the ability to counteract the economic decline might counteract the recent expansion of FN support. Although this analysis is specific to France, far-right political parties throughout Western Europe make very similar arguments and are similarly gaining ground. Political parties in other nations hit by the economic crisis have significant progress to make in restoring faith in their respective political institutions to counteract far-right party support. In addition, more work must be done by the political mainstream to counteract mistrust and fear of Muslims in France, immigrant or otherwise.

Conclusion

This study is among the most comprehensive studies done on the recent rise of FN support. While FN may still have a certain stigma attached, there is no doubt that it has become a more predominate political player in recent years thanks in part to Marine Le Pen. An analysis of the recent time period has more relevance in explaining why voters are swayed by the far-right. Few analyses investigate extreme right party support at both the regional and municipal level. Analyses that have studied support for FN at the individual level have often focused on neighborhoods or cities (Perineau 1989, Rey and Roy 1986). Few sub-regional analyses (below the department level) have studied the entirety of France. Furthermore, while many analyses have focused only on immigration and unemployment, this analysis includes measures that unpack the immigrant variable and socio-demographic variables among the aforementioned indicators. Drawing from the theoretical framework of the literature, this analysis introduces out-group variables (Islamic religious sites, foreigners from predominately Muslim countries, and social housing) that have never been used in a prior analysis. These indicators allow for insight into how voters react to the more “threatening” out-groups that far-right parties so frequently target.

The results suggest that contrary to expectations, the bulk of FN support is driven by specific

groups that are pre-disposed to vote for FN or by economic indicators. To reiterate, unemployment and low-skilled labor proved to be the most consistent predictor of FN vote share across analyses. Immigrant share has either no statistically significant effect or a negative effect, while Muslim presence has a statistically significant positive effect at the department level. An area that would benefit from further research is the voting behavior of immigrants and the children of immigrants and to what extent it may counteract support for FN. Despite media sensationalism, it is likely that the majority of FN support consists of specific demographically defined groups who compete more with immigrants for jobs or who deem Muslim presence particularly threatening. I do not find evidence to support the idea that the average voter in France responds to the rhetoric of FN. Further study targeting these groups is needed to better understand what is driving FN support and overall far-right party support.

Appendix (Tables and Graphs by order of reference)

Figure 1: Department-level Descriptive Statistics

	(1) N	(2) mean	(3) sd	(4) mic	(5) max
2012 FN vote share (%)	94	18.83	4.009	6.200	27.03
2007 FN vote share (%)	94	10.55	3.097	4.580	17.28
FN vote share (%) change	94	7.879	1.587	1.620	10.92
2011 Immigrants per 1,000	94	70.21	48.05	15.00	279.70
2011 Mosques per 1,000	94	0.0341	0.0193	0	0.0982
2011 Social housing per 1,000	94	37.65	11.48	15.23	53.62
2012 Unemployment rate (%)	94	9.339	1.785	3.30	13.30
2011 Low-skilled labor per 1,000	94	115.70	21.74	42.21	150.50
2011 Foreigners from Muslim countries (%)	94	31.02	11.98	9.30	37.30
2012 Crime rate (%)	94	23.49	10.85	9.70	54.00
2011 Poverty rate (%)	94	14.44	2.892	8.20	24.30
2007 Immigrants per 1,000	94	67.02	41.90	16.41	267.50
2007 Social housing per 1,000	94	241.40	908.10	21.74	2,109.00
2007 Unemployment rate (%)	94	7.589	1.508	4.30	11.30
2007 Low-skilled labor per 1,000	94	120.40	28.20	44.98	156.50
2007 Crime rate (%)	94	31.52	12.84	11.10	71.90
Immigrants per 1,000 change	94	3.157	2.819	3.137	12.17
Unemployment rate (%) change	94	1.481	0.554	0.10	3.10
Low-skilled labor per 1,000 change	94	-4.664	2.538	-10.34	1.811
2012 Population	94	667,616	689,349	77,156	9,379e+03

Figure 2: Commune-level Descriptive Statistics

	(1) N	(2) mean	(3) sd	(4) min	(5) max
2012 FN vote share (%)	36,205	21.35	7.125	0	72.09
2007 FN vote share (%)	36,202	12.55	5.415	0	55.56
FN vote share (%) change	36,193	8.803	4.555	-20	50
2011 Immigrants per 1,000	36,184	39.94	50.00	0	766.0
2011 Mosques per 1,000	36,184	0.00479	0.0512	0	5.128
2011 Social housing per 1,000	36,184	14.26	25.04	0	657.90
2012 Unemployment rate (%)	36,184	9.557	4.526	0	66.67
2011 Low-skilled labor per 1,000	36,184	127.60	57.88	0	750
2007 Immigrants per 1,000	36,202	38.49	39.78	0	673.40
2007 Social housing per 1,000	36,202	13.51	25.05	0	556.2
2007 Unemployment rate (%)	36,202	8.682	4.370	0	100
2007 Low-skilled labor per 1,000	36,202	131.40	60.20	0	100
Immigrants per 1,000 change	36,177	1.466	32.28	-666.70	609.60
Unemployment rate (%) change	36,177	0.874	4.277	-50	66.67
Low-skilled labor per 1,000 change	36,177	-3.772	56.09	-2,000	750
2011 Population	36,184	1,734	14,822	1	2.250e+06

Figure 3: 2012 Department-level Average Marginal Effects of Interaction Term (Model 2)

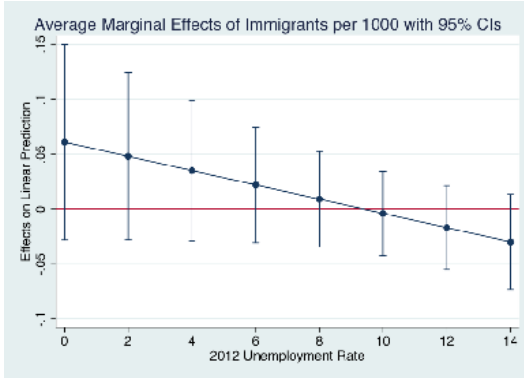


Figure 4: 2012 Department-level Average Marginal Effects of Interaction Term (Model 4)

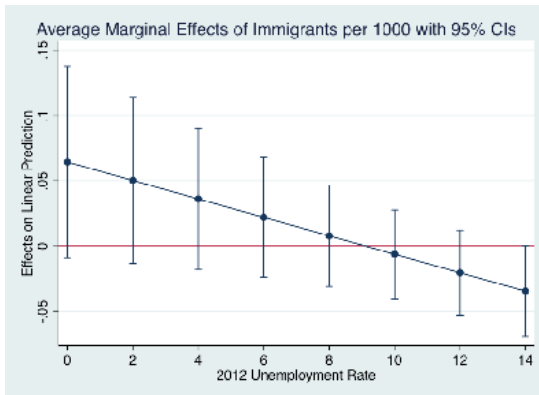


Figure 5: 2012 Average Marginal Effects of Interaction Term when Commune Size Limited

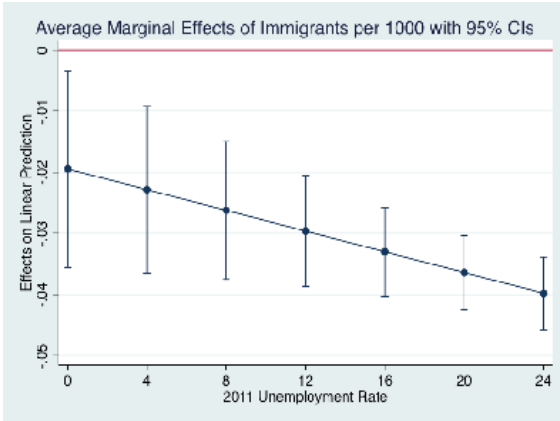


Figure 6: 2012 Alternative Department Analyses

	(1) FN vote share	(2) FN vote share
Crime rate (%)	0.058 (0.048)	0.000 (0.038)
Mosques per 1,000	39.555** (17.218)	35.900** (15.048)
Social housing per 1,000	-0.040 (0.042)	-0.043 (0.044)
Poverty rate (%)	0.240 (0.210)	0.188 (0.190)
Low-skilled labor per 1,000	0.084** (0.030)	0.074** (0.029)
Foreigners from Muslim countries (%)		0.096*** (0.026)
Population density dummy	-5.974*** (1.645)	-5.050*** (1.579)
Constant	4.439 (5.604)	5.167 (4.176)
Regional fixed effects	YES	YES
Observations	94	94
R-squared	0.860	0.880

Robust standard errors in parentheses

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

Figure 7: 2007 Department Analyses

	(1) 2012 FN vote share	(2) 2007 FN vote share	(3) 2012 FN vote share	(4) 2007 FN vote share
Immigrants per 1,000	0.006 (0.021)	0.004 (0.016)	0.075* (0.042)	0.066** (0.026)
Social housing per 1,000	-0.043 (0.055)	-0.000 (0.001)	-0.038 (0.051)	-0.000 (0.001)
Unemployment rate (%)	0.764*** (0.132)	0.574*** (0.097)	1.196*** (0.271)	1.046*** (0.171)
Immigrants × Unemployment			-0.006* (0.003)	-0.007*** (0.002)
Low-skilled labor per 1,000	0.092*** (0.019)	0.063*** (0.018)	0.110*** (0.021)	0.076*** (0.016)
Population density dummy	-5.230*** (1.344)	-2.831** (1.192)	-5.038*** (1.178)	-2.026* (1.003)
Constant	2.503 (3.534)	-1.360 (2.574)	-4.462 (4.205)	-7.193** (2.622)
Regional fixed effects	YES	YES	YES	YES
Observations	94	94	94	94
R-squared	0.870	0.873	0.876	0.886

Robust standard errors in parentheses

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

Note: Independent variables vary by year. The 2007 regressions include independent variables from 2007, while the 2012 regressions include independent variables from 2011/2012. Crime rate is not included in this regression because it is highly correlated with immigrant share. However, when Model (2) is run, replacing immigrant share with the 2007 crime rate, crime rate is not statistically significant. Refer to Figure 8 in the Appendix.

Figure 8: 2007 Alternative Department Analyses

	(1) FN vote share
Crime rate (%)	0.034 (0.039)
Social housing per 1,000	-0.001 (0.001)
Unemployment rate (%)	0.488*** (0.107)
Low-skilled labor per 1,000	0.067*** (0.021)
Population density dummy	-2.255*** (0.396)
Constant	-1.730 (3.207)
Regional fixed effects	YES
Observations	94
R-squared	0.877

Robust standard errors in parentheses

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

Figure 9: 2012 Regressions by Region using Commune Data

	(1) Ile-de-France FN vote share	(2) Champagne-Ardenne FN vote share	(3) Picardie FN vote share	(4) Haute-Normandie FN vote share
Immigrants per 1,000	-0.042*** (0.003)	-0.009** (0.004)	-0.010** (0.005)	-0.009 (0.007)
Unemployment rate	0.129** (0.058)	0.263*** (0.035)	0.138*** (0.030)	0.322*** (0.046)
Low-skilled labor per 1,000	0.089*** (0.004)	0.020*** (0.002)	0.021*** (0.002)	0.034*** (0.003)
Social housing per 1,000	-0.013** (0.006)	0.000 (0.007)	0.006 (0.006)	-0.036*** (0.005)
Urban dummy	-1.644*** (0.350)	-3.432*** (0.730)	-2.517*** (0.471)	-1.934*** (0.426)
Constant	15.200*** (0.443)	21.525*** (0.465)	23.296*** (0.430)	16.728*** (0.546)
Observations	1,281	1,949	2,290	1,419
R-squared	0.528	0.080	0.079	0.178

Standard errors in parentheses

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

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	(5) Centre FN vote share	(6) Basse-Normandie FN vote share	(7) Bourgogne FN vote share	(8) Nord-Pas-de-Calais FN vote share
Immigrants per 1,000	-0.005 (0.004)	-0.003 (0.004)	-0.004 (0.003)	-0.008* (0.004)
Unemployment rate	0.171*** (0.033)	0.171*** (0.036)	0.146*** (0.032)	0.282*** (0.035)
Low-skilled labor per 1,000	0.022*** (0.003)	0.025*** (0.002)	0.027*** (0.002)	0.033*** (0.003)
Social housing per 1,000	-0.015*** (0.005)	-0.011** (0.005)	-0.015** (0.007)	-0.001 (0.006)
Urban dummy	-2.703*** (0.350)	-3.068*** (0.422)	-1.506** (0.594)	-0.868*** (0.332)
Constant	19.091*** (0.443)	15.704*** (0.447)	17.850*** (0.421)	17.415*** (0.458)
Observations	1,841	1,812	2,046	1,545
R-squared	0.107	0.125	0.080	0.168

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

	(9) Lorraine FN vote share	(10) Alsace FN vote share	(11) Franche-Comte FN vote share	(12) Pays de la Loire FN vote share
Immigrants per 1,000	-0.007*** (0.002)	-0.020*** (0.003)	-0.015*** (0.005)	-0.012** (0.005)
Unemployment rate	0.270*** (0.032)	0.306*** (0.064)	0.406*** (0.042)	0.515*** (0.040)
Low-skilled labor per 1,000	0.024*** (0.002)	0.051*** (0.003)	0.014*** (0.002)	0.024*** (0.003)
Social housing per 1,000	-0.020*** (0.006)	-0.009 (0.011)	-0.030*** (0.010)	-0.057*** (0.006)
Urban dummy	-1.794*** (0.429)	-1.267*** (0.366)	0.007 (0.626)	-2.595*** (0.311)
Constant	21.033*** (0.417)	16.427*** (0.503)	18.291*** (0.489)	11.913*** (0.579)
Observations	2,332	904	1,785	1,496
R-squared	0.106	0.308	0.080	0.232

Standard errors in parentheses

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

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	(13) Bretagne FN vote share	(14) Poitou-Charentes FN vote share	(15) Aquitaine FN vote share	(16) Midi-Pyrenees FN vote share
Immigrants per 1,000	-0.008* (0.004)	-0.004 (0.002)	0.011*** (0.002)	0.004** (0.002)
Unemployment rate	0.065* (0.036)	0.246*** (0.035)	0.295*** (0.033)	0.061*** (0.022)
Low-skilled labor per 1,000	0.038*** (0.002)	0.020*** (0.003)	0.022*** (0.002)	0.019*** (0.002)
Social housing per 1,000	-0.016*** (0.006)	-0.031*** (0.008)	-0.037*** (0.008)	-0.014*** (0.005)
Urban dummy	-1.080*** (0.242)	-2.844*** (0.436)	-0.150 (0.311)	0.882** (0.346)
Constant	10.073*** (0.501)	14.501*** (0.541)	11.641*** (0.430)	13.961*** (0.311)
Observations	1,270	1,460	2,296	3,020
R-squared	0.256	0.126	0.091	0.034

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

	(17) Limousin FN vote share	(18) Rhône-Alpes FN vote share	(19) Auvergne FN vote share	(20) Languedoc-Roussillon FN vote share
Immigrants per 1,000	0.010*** (0.004)	-0.020*** (0.002)	-0.004 (0.004)	-0.005** (0.002)
Unemployment rate	0.123*** (0.047)	-0.017 (0.024)	0.168*** (0.036)	-0.038 (0.028)
Low-skilled labor per 1,000	0.008** (0.004)	0.041*** (0.002)	0.016*** (0.003)	0.026*** (0.004)
Social housing per 1,000	-0.009 (0.009)	-0.004 (0.003)	-0.005 (0.008)	-0.019** (0.008)
Urban dummy	-0.581 (0.725)	-0.348 (0.228)	-1.693*** (0.503)	4.931*** (0.411)
Constant	13.350*** (0.590)	17.103*** (0.329)	15.469*** (0.441)	18.975*** (0.528)
Observations	747	2,874	1,310	1,543
R-squared	0.032	0.168	0.055	0.123

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

	(21) Provence-Alpes-Cote d'Azur FN vote share
Immigrants per 1,000	-0.009* (0.005)
Unemployment rate	0.185*** (0.048)
Low-skilled labor per 1,000	0.026*** (0.005)
Social housing per 1,000	-0.001 (0.007)
Urban dummy	3.572*** (0.451)
Constant	17.629*** (0.721)
Observations	957
R-squared	0.103

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

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GLOBALIZATION CONSTRAINTS: LEFTIST GOVERNMENTS, DEMOCRACY, AND HEALTH EXPENDITURE IN LATIN AMERICA FROM 1976 TO 2006

ANGELICA PAQUETTE

I examine whether the executive political orientation of governments and the existence of democracy have had an impact on public, private, and total health expenditures using cross country time series data for 17 countries in Latin America for the time period of 1976-2006. I pursued the hypotheses that leftist and democratic regimes have a positive impact on health spending. Using 5 linear regressions for different sources of health spending, I find a negative but mostly insignificant relationship with executive political orientation and health spending. I argue that this is due to the economic constraints imposed by globalization trends on political leaders during the time period of my research. Contrastingly, my research affirms existing literature that democracy has a positive and significant impact on public and total health expenditure.

Introduction

This research focuses on the effects of left-wing governments on various types of healthcare expenditure of Latin American countries for the time period of 1976-2006. I aim to understand how the political orientation of a country's government can affect social policy, in particular public, private, and total health spending. By analyzing the relationship between left-wing governments and health care expenditure, this research provides important revelations about social policy as a whole in Latin America. Given that many Latin American countries have recently shifted to modern leftist governments, this research helps to accurately describe Latin America as it is currently and provides a better understanding of political causes of public health spending.

Left-wing political movements have been at the center of political shifts among Latin American governments ever since these countries gained independence in the early 1800's. Regime instability has plagued most of Latin America, and one of the causes has been the clashing of the conservative right against the liberal left of the political spectrum. Some Latin American countries have undergone conservative dictatorships that give way to more liberal democratic institutions, while others have had a political regime remain in power for a large amount of time.

There have been two major political movements in which Latin American countries have shifted towards leftist ideologies. During the 1930s and 1940s, the first leftist movement occurred as a result of influence from the Communist International and the Bolshevik Revolution. Castañeda defines this left as stressing “social improvements over macroeconomic orthodoxy, egalitarian distribution of wealth over its creation” (Castañeda, 2006). This leftist movement was initially predominantly socialist and stemmed from Marxist thought. This ideology served as an alternative to capitalist models. Many countries that were proponents of socialism would, however, follow a path of populism: an ideology independent of political identification. Some populist regimes would lean left regarding certain social policies, though it is important to note that populism can sway either way on the political spectrum (Levitsky and Roberts, 2011).

Populism is defined as the “top-down political mobilization of mass constituencies by personalistic leaders who challenge established political or economic elites on behalf of an ill-defined pueblo, or the people” (Levitsky and Roberts, 2011). The populist regimes of this time period were predominantly nationalistic, socially redistributive, and proponents of Import Substitution Industrialization (ISI), an economic strategy in which Latin American countries strived to protect their local industries by becoming more self-sufficient and decreasing their dependency on developed countries. As a result, in addition to the leftist characteristic of social redistribution, these populist regimes were largely unique and engaged in corporatist strategies to appeal to the masses that called for redistributive social policies to fix inequality (Levitsky and Roberts, 2011).

The populist advocacy for ISI in Latin America made the region unique in that many of its countries underwent a period of implementing the economic model from the late 1940s to the late 1970s. Under this model, Latin American countries shifted their economic policy so that the state would have a larger role in fostering industrialization and economic development. During ISI, governments provided subsidies to new domestic industries such as manufacturing in order to become economically independent from foreign imports and trade. It is important to note that during this time, Latin America’s annual GDP growth rates set historic highs. Industrial output increased ten times in Mexico and Brazil, and three times in Argentina and Chile. In addition, Latin America as a whole increased its industry as a percentage of GDP from under 17 percent to over 25 percent from 1939-1973. However, many critics to ISI argue that the growth during this time period could not be sustained, and that the heavy industries that did emerge were only a result of extreme government protection (Pineo, 2013).

The populist regimes that followed the economic model of ISI during the 1930s and 1940s would differ greatly in comparison to the second, more modern leftist movement that occurred in the 1990s. The second leftist movement has been called “Latin America’s Left Turn” by many and has very different characteristics compared to the original leftist movement of the 1930s. The Left Turn began in 1998 when Chavez was elected president of Venezuela. By 2009, more than two thirds of all governments in Latin America would be leftist. After the fall of the Soviet Union, the Left began to redefine itself as more democratic with more moderate, left of center parties. Most of these countries adopted neoliberal economic policies and appealed to the poor as opposed to the elite who benefited during the earlier leftist movement’s support of ISI. This second wave of leftist governments is considered to be more right wing and modern in comparison to its 1930’s origins, and many scholars believe this movement will help guide Latin America out of its deep inequality and history of instability (Levitsky and Roberts, 2011).

The neoliberal economic models that the newer wave of leftist governments has adopted emerged as an alternative to the ISI model during the economic crisis of the 1980s. Latin American countries had been pursuing an unsustainable practice of heavily borrowing foreign loans to cover current expenses, forego tax increases, or invest in white elephant projects that ultimately contributed to the economic crisis during this time period. Neoliberal policy included economic measures such as reducing government spending, ending government subsidies, balancing the budget, and becoming a free market economy. The IMF and its sister organization, the World Bank, as well as the United States and other leading countries with free-markets promoted these neoliberal policies. As Latin American countries were desperate for new loans to pay off their previous ones, the IMF imposed neoliberal conditionality requirements that forced borrowing countries to adopt economic austerity programs and to open their markets to the global economy (Pineo, 2013).

With this more modern shift towards leftist governments, Latin American countries are also said to have shifted towards universal healthcare. It is important to determine whether this increase has been significant and if the modern leftist governments are not too constricted by the international economy and other restrictions. In fact, many Latin American countries currently do not spend much of their GDP on healthcare, for some countries spend as little as 3- 4 percent (Araujo, 2011).

It is important to note the differences in healthcare structures of the countries of Latin America. According to the World Bank, public health expenditure is the amount the government spends on health that includes recurrent and capital spending from government budgets, external borrowing, and social health insurance funds. Private health expenditure, on the other hand, includes “direct household (out-of-pocket) spending, private insurance, charitable donations, and direct service payments by private corporations,” (World Bank, 2015). The relationship between public health expenditure and private health expenditure is inverse; the more a government allocates towards public health, the less individuals will pay for out-of-pocket expenses and the less they will spend on social insurance, which are key components of a nation’s private health expenditure level (Musgrove, 1996).

Private and public health expenditure levels define the healthcare structure of governments. Subsequently, Latin America’s variation in healthcare structures results in variation in the countries’ levels of public and private health expenditure. Some countries, such as Costa Rica and Cuba, focus primarily on public health systems, while other countries such as Chile invest more in private health systems. Furthermore, some countries like Argentina have a mix of public health systems, social and private health insurance, and private health systems. As a result, the healthcare structure of each nation’s healthcare policy will determine the amount of funding each nation contributes to public health (Araujo, 2011).

Case Selection and Contribution

My research is restricted specifically to Latin American governments as opposed to Organization for Economic Co-operation and Development (OECD) countries due to the fact that scholars have written about how the incentives and development of OECD countries vary drastically from Latin American countries. Huber, Mustillo, and Stephens state that the majority of OECD countries have had uninterrupted democratic rule since the end of World War II. This democratic stability contrasts greatly with the various regime transitions that color Latin America’s history. The scholars suggest that Latin America should be studied in isolation from OECD countries, since it has experienced a variety of both

full and restricted repressive authoritarian and democratic regimes in the past century. Latin America has also undergone a distinct set of economic and political constraints that have shaped its policy regarding social expenditure (Huber, Mustillo, Stephens, 2008). The severity of economic constraints on the region's ability to allocate resources towards health expenditure, such as specific market reforms during the 1980s and 1990s, and the 1980's economic crisis, are particularly important. These economic hardships caused a strong backlash against neoliberal reforms, which would in turn provide fuel for the leftist movement in Latin America (Levitsky and Roberts, 2011).

I also want to accurately portray the new left-wing governments that have emerged in Latin America after the late 1990s, because they follow very different political paths in comparison to the early leftist regimes of the 1930s. The more modern ideology of these leftist governments, have led some countries to adopt neoliberal economic policies. This has influenced the level of privatization of healthcare in certain countries and, in turn, has had an important effect on the ratio of public and private health spending in Latin American countries (Levitsky and Roberts, 2011). In addition, I will focus specifically on public, private, and total healthcare expenditure, instead of correlating it with other social policy components such as education and welfare. The reasoning for this is because previous literature has shown that education, social security, and other components of social spending are not positively correlated with public health expenditure in Latin American countries (Huber, Mustillo, Stephens, 2008).

Literature Review

Classic Partisan Theory

Previous literature (Huber, Mustillo, and Stephens, 2008; Van Dalen and Swank, 1996) on this topic discusses classic partisanship theory in which the political party of a government is expected to implement policy that aligns with its established political identity. Specifically regarding Latin America and public health expenditure, this theory states that leftist governments are generally expected to allocate more funds for public health spending because they understand the importance of the redistribution of resources to appease the inequality of income for its poorer citizens, who are the primary supporters of left-wing parties. According to Levitsky and Roberts, among other scholars, they define a leftist government as being led by "political actors who seek, as a central programmatic objective, to reduce social and economic inequalities" (Levitsky and Roberts, 2011).

Electoral Cycles

Van Dalen and Swank add to classic partisanship theory and suggest that health spending is influenced by both partisan and opportunistic motives. They describe the partisan model as policymakers who represent the interests of a specific group and implement policies favorable to that group. Policymakers implement partisan decisions when reelection is safe. However, they go on to qualify that these policymakers will alter their preferences to voters during election cycles when their prospects for reelection are uncertain. This is described as the opportunistic model in which the policymaker "fools the public during elections" in order to win favor and stay in power. Despite the influence of opportunistic motives, Van Dalen and Swank come to the conclusion that left-wing cabinets value expenditure on social security and health greater than right-wing cabinets in the Netherlands and, in turn, have a positive impact on these types of expenditure (Van Dalen and Swank, 1996).

There is also a large amount of literature that seeks to explain health expenditure trends by using other models beyond solely the political identity of the government in place. Tellier expands upon Van Dalen and Swank's assessment of the electoral cycle and suggests that governments can only implement their ideological objectives during the times in which they are popular. This is due to the fact that if a government is unpopular, its resources must be allocated towards appeasing voters and gaining their support, which requires deviating from the party's true ideological preferences. In this sense, Tellier suggests that the partisan cycle dominates over true partisan preferences (Tellier, 2006).

Post-Communist Constraints

Others believe that leftist governments are incentivized to pursue conservative economic policy instead of favoring health expenditure. This deviation is due to constraints such as international trade requirements and other restrictions. Tavits and Letky argue that post-Communist countries fit this trend due to a transition to both democracy and a market economy simultaneously. As a result, they suggest that leftist governments had incentives to implement fiscal austerity and tighter budgets because they needed to assert their new distance from communism and their ability to function as a democracy. On the other hand, they affirm that right-wing governments were influenced to spend more to improve economic adversity that resulted from market reforms (Tavits and Letky, 2009).

Economic Constraints

Some scholars suggest that a country's economic policies shape its social policies, as opposed to partisan identification. Wibbels and Ahlquist explore in their article, "Development, Trade and Social Insurance," the relationship between a government's development strategy and how it determines the fiscal priority governments place on social policy. The size of the country's domestic market, abundance of labor, and land inequality condition development strategy. In studies of rich democracies, particularly concerning countries that adopted ISI methods, protectionist countries favor social policy. Wibbels and Ahlquist state that the organization of a country's economy is key to shaping its social policy. As a result, they argue that economic policy shapes social policy, which specifically impacts health expenditure (Wibbels and Ahlquist, 2011).

Ross also looks at the role of government under times of economic constraint. She argues that partisanship does not matter under times of constraint in her article, "'Beyond Left and Right': The New Partisan Politics of Welfare." The term "new politics" refers to the unpopular politics of retrenchment of the welfare state as opposed to the more popular politics of increasing welfare spending. New politics allows policy makers to pursue contentious policies while avoiding electoral blame. Because losses are viewed more negatively than gains are viewed positively to the electorate, losses of public services are often viewed worse than tax cuts to the public; therefore, leaders who implement welfare retrenchment need to participate in blame avoidance exercises (Ross, 2000).

Ross argues that this type of new politics regarding unpopular policy choices has made it so that left parties in government have incentives to implement more right-wing policies during times of constraint. She gives the example of economic hardship in the 1970s and 1980s, which produced a credibility gap in Latin American leftist governments. As a result, leftist governments implemented fiscally restrictive policies to attract business confidence in the economy and prove economic stability to the electorate. Ross also states that choice reversal and electoral compensation, the choice of implementing policies that conflict

with partisanship to appeal to more voters and aid reelection, are results of new politics. Ross goes on to qualify that leaders' preferences do shape policy in some respect, since their preferences affect how much they are "willing to shift for contextual reasons" (Ross, 2000).

Ross explores the concept of choice reversal, originally defined by Bryan Jones in his article, "Reconceiving Decision-Making in Democratic Politics: Attention, Choice, and Public Policy" as "a choice made at one time is reversed at another" (Jones, 1994). He gives the example of a leftist party that campaigns on liberal economic and social policies, and then reverses their party position preferences once in office to neoliberal economic policies, due to various constraints such as the economic crisis in the 1980s (Ross, 2000). Weyland (2002) gives specific examples of this theory in his book, "The Politics of Market Reform in Fragile Democracies," that support Ross' theory of choice reversal in implementing orthodox, neoliberal policies. He cites the governing periods of Carlos Saúl Menem in Argentina (1989-99), Fernando Collor de Mello in Brazil (1990-92), Alberto Fujimori in Peru (1990-2000), and Carlos Andrés Pérez in Venezuela (1989-1993) as ones where political leaders imposed strong orthodox economic stabilization programs after taking office. All four politicians mobilized mass support through populist actions and were the first to impose austerity programs. Their political predecessors had been proponents of the ISI and redistributive economic models, which ultimately lead to the economic crisis of the 1980s. Faced with economic and global constraints, they chose to adopt neoliberal market reforms which, in turn, would attract international business confidence and provide economic stability to the electorate (Weyland, 2002).

International Trade

Scholars have also examined the effect of international trade on healthcare policy in the context of a globalizing world. While Kaufman and Segura-Ubiergo (2001), and Avelino, Brown, and Hunter (2005) agree on the positive relationship between democratization and social expenditure, they argue that international trade has an additional separate effect on social spending.

Kaufman and Segura-Ubiergo (2001), and Iriart, Merhy, and Waitzkin (2001), are two groups of authors who explain how international market openness and globalization have caused developing countries, like those in Latin America, to reduce social spending for programs such as public health systems to decrease the public debt and remain competitive in global trade markets. Iriart, Merhy, and Waitzkin (2001) also examine how multinational finance corporations have pushed for healthcare privatization, as opposed to allocating government funding towards public health systems. Avelino, Brown, and Hunter (2005) take an opposing stance on the effects of international trade and argue that, with more accurate measurements of international trade, the international economy has a positive effect on social spending because social instability can threaten the economy of the government as well as the political survival of the government in power.

International Organizations

Additional literature explores how international organizations related to trade and monetary policy affects economic policy, and in turn, healthcare expenditure. Authors such as Homedes and Ugalde (2005) and Stuckler and Basu (2009) argue that international organizations such as the International Monetary Fund (IMF) and the World Trade Organization (WTO) have a negative effect on public health policy. They argue that because these organizations require strong fiscal austerity policies and

other stabilizing economic policies to be implemented in order to lend money to developing countries, they decrease social spending on public health systems. Homedes and Ugalde (2005) and Stuckler and Basu (2009) also argue that the 1982 economic crisis has caused concern from the IMF and WTO about the public debt of Latin American countries. This generated a requirement for these countries to shift resources away from social spending. Both groups of authors also explain that the IMF and WTO have pushed for reforms of decentralization and privatization in social healthcare policy, which has reduced public health system expenditures.

On the other hand, Deacon (1997) argues in his article, "Global Social Policy: International Organizations and the Future of Welfare," that international organizations have a positive effect on social expenditure because they act as supranational agencies with a global responsibility to regulate the negative effects of international trade. Deacon gives examples of agencies within the UN and the EU that have pushed for social policies because of their global responsibility to protect health, education and other human rights (Deacon 1997).

Hypotheses

Hypothesis 1

Leftist governments have a positive effect on public health expenditure

I pursued the hypothesis that leftist governments in Latin America have a positive effect on public health expenditure according to classic partisanship theory, holding constant for the other factors discussed, such as economic performance and constraints, international trade involvement, and movement towards privatization.

Income inequality and class conflict have been significant issues for Latin America since colonization, which have permeated the social, cultural, and political environment of the region. Heavy polarization between the Right, backed predominantly by the elite and military, and the Left, backed by the urban and/or rural lower-class masses, has caused many regime transitions and political volatility over the past 50 years. In order to appease the poorer masses due to high inequality, political leaders have an incentive to redistribute resources such as land, social benefits, or tax cuts and subsidies. As a result, Latin America's unique political and social environment has been conducive for leftist political regimes to emerge, which in turn have an incentive to provide social benefits such as public healthcare.

Hypothesis 2

Democratic governments have a positive effect on health expenditure

My second hypothesis states that democratic regimes have a positive effect on public and total health expenditure. There has been extensive literature written on the positive effects of democratization on social policy in developing countries such as those in Latin America. Authors such as Avelino, Huber, and Kaufman each explore the strong correlation between democratic governments and social expenditure in Latin America. Huber devotes a great deal of thought on the impact of political institutions on social policy in her article with John Stephens called "Democracy and the Left: Social Policy and Inequality in Latin America." Huber describes how the political institutions in democratic governments are more likely to implement redistributive policies, which are necessary for social programs such as public healthcare systems. These redistributive policies result from the balance in power of the domestic working class and

party political power, which democratic governments make necessary. Avelino and Kaufman, along with many other scholars, agree that democratic governments implement higher health expenditures and refer to statistical evidence showing a high correlation between the two.

Independent Variables

The main independent variable in my research is the executive political orientation of Latin American governments. This data comes from the 2015 Database of Political Institutions compiled by Cesi Cruz, Philip Keefer, and Carlos Scartascini. These researchers adopt a coding system in which party orientation is coded as right, left, or center with respect to economic policy. The scale is from 0-2; right is coded as 0, center as 1, and left as 2. Countries in which the political orientation of the executive does not coincide with the definitions of the right, left and center (such as a platform that does not focus on economic issues) are coded as missing.

Polity is also incorporated as an independent variable in the research because there is a strong background in research stating that democracies spend more on public health expenditure than authoritarian governments. As a result, polity scores will be taken from the "Social policy in Latin America and the Caribbean dataset, 1960-2006" by Evelyne Huber, in which the original scale was recoded from -10 to 10 as 10 to 20.

Dependent Variables

My first dependent variable is defined as public health expenditure as a percent of GDP for each country. This data is available through the World Bank's World Development Indicators Database for the years 1990 to 2013. It is measured by including the amount spent by the government on recurrent and capital spending from government budgets, external borrowing, and social health insurance funds. The second source of public health spending is taken from the World Health Organization's Global Health Expenditure database for the years of 1995-2013. The same economic measures as the World Bank's World Development Indicators define this second source.

The third source of public health expenditure is taken from the Social Policy in Latin America and the Caribbean Dataset, 1960-2006 in which the variable was taken from Rosella Cominetti's "Social Expenditure in Latin America: An Update" dataset. The variable is defined as government expenditure on health, including services under social security schemes and includes the years 1975-2007. This health spending variable differs from the first two as it incorporates some of the social security spending of each government, which will slightly aggregate trends in health and social security expenditure.

My second dependent variable is defined as total health expenditure as a percent of GDP for each country. This data is also found through the World Development Indicators of the World Bank, which cites the World Health Organization's Global Health Expenditure database. It includes the years from 1995 to 2013 and "covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation" (World Health Organization). The use of this second dependent variable is to account for both public and private health expenditure as a whole.

My third dependent variable is defined as private health expenditure as a percent of GDP for each country. This data is also available through the World Development Indicators of the World Bank

that cites the World Health Organization's Global Health Expenditure database for the years of 1995 to 2013. It includes direct household (out-of-pocket) spending, private insurance, charitable donations, and direct service payments by private corporations. Private health expenditure should be considered because of the persistence of many international organizations such as the IMF and WTO pushing for privatization in social health policy. This is due to their interest in reducing each country's great public debt and shifting resources so that the international organizations can implement better budgeting in Latin American countries (Homedes and Ulgade, 2005; Iriart, Merly and Waitzkin, 2001).

Control Variables

The following control variables are found through the World Bank's World Development Indicators Database for the years 1970-2014. One control variable I will be using is the foreign direct investment for each country, measured by the net inflow of foreign investments, to acquire a lasting management interest in an enterprise in each country. Huber states in her article, "Politics and Social Spending in Latin America," that foreign direct investment can have a positive effect on health expenditure because funds are more likely to be allocated towards the health sector. This allocation is due to the importance of the health sector in human capital for employers who desire to be competitive in the world economy. Economic performance is also a necessary control and will be measured by long-term debt as a percentage of GDP for each country. Lower long-term debt will indicate better economic performance, which in turn should have a positive effect on public and total health expenditure of each country.

Trade is another control variable and is measured by the imports and exports as a percentage of GDP of each country. Trade is expected to have a positive effect on health expenditure because it improves economic performance. However, involvement with international monetary organizations—in particular, the IMF, measured by the total amount of charges a country has with the IMF as a percentage of GDP—is expected to have a negative effect on health expenditure due to the conditionality requirements of neoliberal policies that its loans imposes on Latin American countries.

Estimation Strategy

Time series cross-sectional data was used to analyze the effects of executive political party orientation and polity on public health expenditure for Latin American countries from 1976 to 2006.

I will be estimating a general linear regression model of the following form: Public health expenditure $ct = \beta_0 + \beta_1 \times \text{partyc}_{t-1} + \beta_2 \times \text{polity}_{ct-1} + \beta_3 \times \theta_{ct-1} + \epsilon$ where $c = \text{country}$, $t = \text{year}$, $\beta_0 = \text{constant}$, $\beta_1 \times \text{partyc}_{t-1} = \text{executive political orientation}$, $\beta_2 \times \text{polity}_{ct-1} = \text{polity score}$, $\beta_3 \times \theta_{ct-1} = \text{a vector for all of the controls specified earlier and } \epsilon = \text{error}$.

I will be using a second linear regression model in order to estimate my second dependent variable, total health expenditure including both private and public spending, by using the following form: Total health expenditure $rect = \beta_0 + \beta_1 \times \text{partyc}_{t-1} + \beta_2 \times \text{polity}_{ct-1} + \beta_3 \times \theta_{ct-1} + \epsilon$ where all variables are defined the same as the first regression.

I will be using a third linear regression model to estimate my third dependent variable, private health expenditure as a percent of GDP, by using the following form: Private health expenditure $= \beta_0 + \beta_1 \times \text{partyc}_{t-1} + \beta_2 \times \text{polity}_{ct-1} + \beta_3 \times \theta_{ct-1} + \epsilon$ where all variables are defined the same as the first regression.

Results

Table 1

Linear Regression Analyses of Health Spending and Political Orientation					
	(1)	(2)	(3)	(4)	(5)
	Public Health Spending World Bank (1990-2006)	Public Health Spending WHO (1995-2006)	Public Health Spending SS Cominetti (1976-2000)	Total Health Spending WHO (1995-2006)	Private Health Spending WHO (1995-2006)
	b/se	b/se	b/se	b/se	b/se
L. Executive Political Orientation	0.008	-0.171*	-0.094	-0.311*	-0.14
	(0.048)	(0.076)	(0.098)	(0.154)	(0.097)
L. Polity IV scores	0.068***	0.044*	0.159***	0.051*	0.007
	(0.019)	(0.018)	(0.037)	(0.025)	(0.021)
L. Foreign Direct Investment net inflows as a % of GDP	0.028	0.025	0.094**	0.048*	0.024
	(0.016)	(0.014)	(0.031)	(0.024)	(0.014)
L. Trade (imports plus exports as % of GDP)	-0.001	-0.007	0.007	-0.020**	-0.013*
	(0.002)	(0.004)	(0.004)	(0.008)	(0.005)
Constant	3.404***	3.911***	0.945	7.874***	3.962***
	(0.335)	(0.333)	(0.716)	(0.48)	(0.386)
N	173	182	288	182	182
Country Fixed Effects Included: * p-value < 0.05, ** p-value < 0.01, ***p-value < 0.001					

Table 2

Linear Regression Analyses of Health Spending and Political Orientation Including Debt Controls

	(1)	(2)	(3)	(4)	(5)
	Public Health Spending World Bank (1990-2006)	Public Health Spending WHO (1995-2006)	Public Health Spending SS Cominetti (1976-2000)	Total Health Spending WHO (1995-2006)	Private Health Spending WHO (1995-2006)
	b/se	b/se	b/se	b/se	b/se
L. Executive Political Orientation	-0.091	-0.107	0.037	-0.141	-0.034
	(0.053)	(0.079)	(0.114)	(0.133)	(0.08)
L. Polity IV scores	0.069***	0.065*	0.144***	0.083*	0.019
	(0.018)	(0.025)	(0.039)	(0.034)	(0.028)
L. Foreign Direct Investment net inflows as a % of GDP	0.005	0.03	0.135***	0.076**	0.046**
	(0.021)	(0.018)	(0.035)	(0.025)	(0.015)

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L. Trade (imports plus exports as a % of GDP)	-0.002	-0.003	0.010*	-0.011	-0.008
	(0.003)	(0.004)	(0.004)	(0.006)	(0.005)
L.IMF charges as a % of GDP	22.403	318.327**	32.222	553.370***	235.043
	(18.375)	(102.831)	(23.726)	(159.662)	(124.382)
L. Long term debt as a percent of GDP	0.004	-1.267***	0.131	-2.518***	-1.251***
	(0.041)	(0.35)	(0.072)	(0.483)	(0.338)
Constant	0.089	2.908***	-2.059**	5.423***	2.516***
	(0.404)	(0.408)	(0.657)	(0.599)	(0.433)
N	130	146	223	146	146
Country Fixed Effects Included					
* p-value < 0.05, ** p-value < 0.01, ***p-value < 0.001					

Table 3

Summary Statistics, 1976-2006					
Variable	Obs	Mean	Std. Dev.	Min	Max
Public Health Spending- World Bank (1990-2006)	361	3.013878	1.648187	0.63	11.28
Public Health Spending-WHO (1995-2006)	513	3.462256	1.471289	0.7	11.24768
Public Health Spending and Social Security Services-Cominetti (1976-2000)	610	2.199016	1.630427	0.1	10.6
Total Health Spending-WHO (1995-2006)	513	6.409377	1.620604	3.398636	15.60306
Private Health Spending-WHO (1995-2006)	513	2.94755	1.241189	0.4961576	8.750346
Executive Political Orientation	837	0.9378734	0.9272389	0	2
Polity IV Scores	1,356	16.23156	2.839272	11	20
Foreign Direct Investment (net inflows as a % of GDP in current USD)	1,062	2.361545	4.027793	-55.2422	39.80924
Trade (imports plus exports as % of GDP)	1,108	64.03246	40.01825	9.057734	280.361
Long Term Debt as a % of GDP	833	0.4977163	0.6762712	0.0383563	8.234937

Dependent and Control Variable Distinctions

My results are presented in tables 1 and 2, which demonstrate the linear regression output for five different health expenditures and their relationship with executive political orientation. The only difference between the two tables is that model 1 does not include the controls of IMF charge amounts and long-term debt, while table 2 does include the two control variables. Both tables include regression models with polity as a separate independent variable and the controls of trade and foreign direct investment. All independent variables and controls are lagged one year in order to reduce post-treatment bias. Country-fixed effects are included in the regressions, as well as robust standard errors. I justify the dependent health spending variable not being included as an additional lagged variable due to the possible bias that occurs in short panel data with lagged dependent variables. The theoretical paper “Biases in dynamic models with fixed effects” supports this bias (Nickell, 1981).

When including the IMF charges and long term debt control variables in table 2, which were found through the World Bank’s World Development Indicators database, three countries were dropped from the regression: Argentina, Uruguay and Venezuela. This is because the World Bank does not have debt data for these countries. As a result, each regression’s sample size shrinks 36-65 observations depending on the number of years each regression included.

Each of the five regression models in tables 1 and 2 differ solely in the dependent variable used. The first two models for public health expenditure, one from the World Bank and the second from the World Health Organization, are similar in the time periods included (1990-2006 and 1995-2006 respectively) and how they are measured. The two health spending variables have a correlation of 0.78, and the regression coefficients for each are similar for executive political orientation and polity after the debt control variables are included in the regressions in table 2.

The third model uses public health expenditure measured by total government expenditure on health, including sub-national spending and services under social security schemes, as the dependent variable of the regression. While this variable may be measured differently from the first two, the third model’s dependent variable has a correlation of 0.81 with the dependent variable of model 1 and 0.63 with model 2. The fourth model uses total health spending as its dependent variable, which is taken from the World Health Organization, and the fifth model uses private health spending from the World Health Organization.

Analysis

Model 1 of table 1, which uses public health expenditure as a dependent variable, has a positive but insignificant relationship with executive orientation without the debt controls. Once the debt controls are added to the regression in table 2, the coefficient switches sign to -0.091; however, the relationship is still insignificant. In contrast to the first model of public health expenditure, model 2 from the World Health Organization demonstrates a negative and statistically significant relationship of -0.171 with executive political orientation in table 1. When the debt controls are added to model 2 of table 2, the correlation continues to be negative but loses significance.

Regarding model 3 and the relationship between health expenditure and political orientation, I find that it demonstrates a negative but not statistically significant relationship in table 1. After the debt controls were added to the regression, the coefficient for political orientation changes to a positive

but statistically insignificant relationship. Model 4, which uses total health expenditure as the dependent variable, demonstrates negative coefficients in each table for executive political orientation, in which table 1's coefficient is significant but table 2's coefficient is not.

Regarding private health expenditure and executive orientation in model 5, the coefficient for this relationship is negative but not statistically significant for regressions for tables 1 and 2. This coefficient for private health expenditure also corresponds with the negative coefficients for total and public health expenditure taken from the World Health Organization during the same time period for both tables. In order to explain the isolated positive coefficient of model 3 from the other negative regressions in table 2 regarding executive political orientation, it is important to note that the time period of each sample is likely to be an important factor. While the measurement of each health expenditure variable is slightly different, it is more likely that the 20 years from 1976-1995 that model 3 includes and the rest of the models do not is driving the difference in sign. This positive distinction for the years from 1976-1995 is likely to be related to how leftist regimes that occurred in the 1970s and 1980s did not implement the neoliberal economic policies that the modern wave of leftist regimes did after the late 1990s. Another likely cause is that the positive correlation of model 3 is the only model that includes the time period before the debt crisis of the early 1980s, when countries were not as economically constrained. I argue that these two factors explain why the rest of the models show a negative relationship and the third model does not in table 2.

While the political executive orientation's relationship with health spending has demonstrated non-cohesive results in both tables, the relationship between a country's polity score and health spending is largely significant with the exception of private health spending in both tables. The regression output for the five models excluding model 5 demonstrates that polity has a significant positive relationship with health spending, ranging from 0.051 to 0.159. I argue that the private health exception is due to the fact that private health expenditure is inversely related to public health expenditure, as high levels of government funding spent on health institutions negatively affects the amount individuals will spend on out-of-pocket fees and insurance. This theory is supported by Musgrove in his book, "Public and private roles in health" (1996). As a result, an insignificant relationship does not refute the positive relationship with polity and health spending. Furthermore, the positive and significant relationships shown in the regression output for table 1 and 2 support existing literature that the more democratic a country is, the more it will spend on public health.

In contrast to the strong positive relationship with health spending and polity, the control of foreign direct investment has a positive but not unanimously significant relationship with health spending. Models 4 and 5 of table 1 demonstrate significant relationships with foreign direct investment and health spending; however, models 1, 2 and 5 do not. In table 2, models 3, 4 and 5 demonstrate positive and significant coefficients, but models 1 and 2 do not. As a result, the regression output demonstrates a positive but not completely significant relationship with foreign direct investment.

The trade control variable, on the other hand, demonstrates a mostly negative and sometimes significant relationship with health spending. Trade has a significant negative relationship in table 1 for models 4 and 5, the regressions using total and private health spending from the World Health Organization as dependent variables. In contrast, in table 2, trade has a positive and significant relationship with public health spending in model 3. As a result, the regression output suggests a negative relationship for private expenditures, and a positive relationship for public expenditures over the longer time period of 1976-2000.

The debt control variable of IMF charges demonstrates positive and statistically significant results in two models of table 2. In models 2 and 4, IMF charges shows a positive and significant relationship for public and total health expenditure taken from the World Health Organization for the years 1995-2006. For models 1, 3 and 5, the relationship is still positive but not significant. Lastly, long-term debt as a control is negative and statistically significant for models 2, 4 and 5; the three regressions using data from the World Health Organization.

Conclusions and Discussion

I conclude that the executive political orientation of Latin American countries has had a negative, but largely insignificant, relationship with public, private, and total health spending for the years of 1995-2006. The two statistically significant negative relationships in table 1 utilized public and total health expenditure from the World Health Organization. They demonstrated that an average increase of one unit of executive political orientation would decrease public and total health spending by -0.171 and -0.311 units, respectively, while holding all other controls constant. On the other hand, model 3 of table 2 for the time period of 1976-2000 demonstrated that for an average unit increase in executive political orientation, public health spending would increase 0.037 units, holding all other controls constant; however, it is important to note that this relationship is statistically insignificant.

Furthermore, I argue that the largely insignificant results concerning executive political orientation and health expenditure are a result of government executive leaders being economically constrained by the overall globalization of the world market through foreign influences; this includes the IMF loan conditionality of orthodox policies, incentives to attract foreign capital, and international trade. This conclusion supports the claims made by Kaufman and Segura-Ubiergo (2001) as well as Iriart, Merhy, and Waitzkin (2001) that globalization and market openness trends have a negative effect on health expenditure. However, in specific relation to partisan action by leftist governments, this research supports the claim by Ross (2000) that the constraints during the time period of this study have caused leftist governments to adopt “new politics” regarding unpopular policy choices, such as orthodox economics and other more right-wing policies.

Second, this paper reaffirms the existing theory that the more democratic a government is, the more it will spend on public health services. My research demonstrated that for every regression model, with the exception of private health spending, an average one-unit increase in polity score resulted in an increase in the range of 0.051 to 0.159 units of health spending while holding all other controls constant. Because public and private expenditure are generally inversely related, the exception of private health spending also reaffirms this claim.

Regarding foreign direct investment as a control, I find that it demonstrated a positive and sometimes significant relationship with health spending. I argue that this relationship is due to selection bias as a result of foreign countries investing more when an economy is already doing well, in which the positive economic performance of the nation is what is actually driving the increase of social expenditure. As a result, foreign direct investment has only an indirect impact on health spending.

Similar to my results with executive political orientation, I find that trade demonstrates a significant negative relationship with private expenditures and a significant positive relationship with public expenditures over the longer time period of 1976-2000. Knowing the inverse relationship between

public and private health spending, I conclude that trade had a positive impact on public health spending in model 3 because of the time period of 1976-1990 it uniquely includes; specifically, before the economic crisis of the early 1980s and the subsequent neoliberal policies imposed afterwards.

Loan involvement with the IMF, measured by the amount of IMF charges each nation contracted, demonstrated a positive and significant relationship for public and total health expenditure taken from the World Health Organization for the years 1995-2006. I argue that this relationship is not complete because it is missing the countries of Argentina, Uruguay, and Venezuela. As a result, the positive coefficients found do not accurately depict Latin America as a whole.

Lastly, long-term debt as a control demonstrated negative and statistically significant results for the three regressions using data from the World Health Organization. I conclude that this reaffirms existing economic theory that the more debt a country has, the less resources it will be able to allocate towards social programs.

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