

Political ideology and economic freedom across Canadian provinces

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Background

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- Does political ideology matter?
 - Old and important question
 - If no effects, why do we bother talking about left and right?
 - Do we expect different things or are we merely expressive?
- But how do we answer the question?

Measuring ideology?

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- Three main problems:
 - The potential multidimensionality of political positions
 - The comparability of scales across countries
 - The stability of scales across time

Multidimension policy spaces?

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- In the US, Poole and Rosenthal show that 80-90% of all Congressional decisions are along a traditional left-right scale
- In Canada, a second dimension is likely: Federalism

Scale comparability?

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- Measurement is always relative to some anchor
 - Middle of political spectrum varies between countries – think of France, Denmark, the US
- The solution is to explore effects within federal nations

Scale stability?

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- Party positions and median ideology could change over time
 - Learning among politicians, voters – who would vote for communists today?
- We track changes within Canadian parties

The Canadian leftwing

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- New Democratic Party
 - 'The Waffle' or standard position
 - BC shifts from Bob Skelly to Michael Harcourt in 1991
- Parti Quebecois

The Canadian rightwing

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- The Liberal Party
 - Social liberals (QUE) or business liberals (SAS)
- Progressive Conservative Party
 - Red Tories, standard position, classical liberalist
 - Alberta shifts from Getty to Ralph Klein in 1993

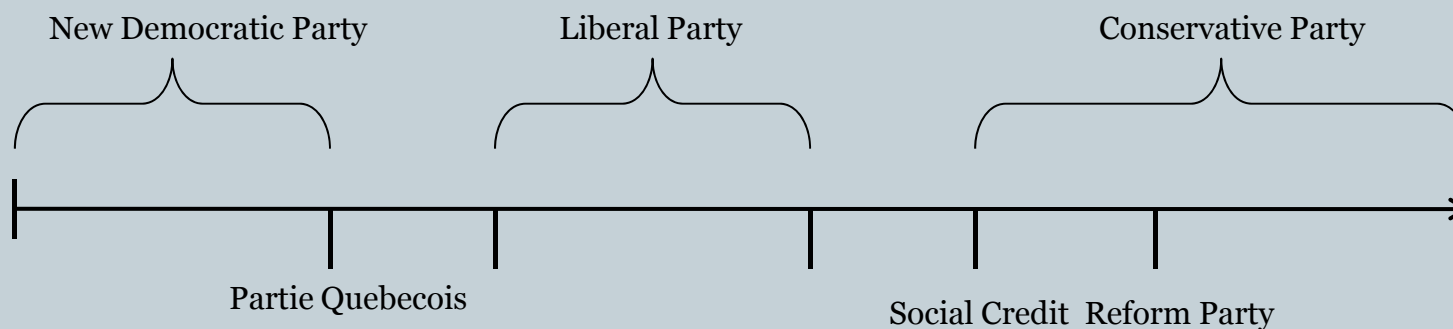
Other parties

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- Rightwing: Reform / Canadian Alliance, Social Credit
- Leftwing: Action Democratique
- Regional: Saskatchewan Party, Confederation of Regions (NB), Equality Party (QUE), Representative Party and Alberta Alliance (ALB)

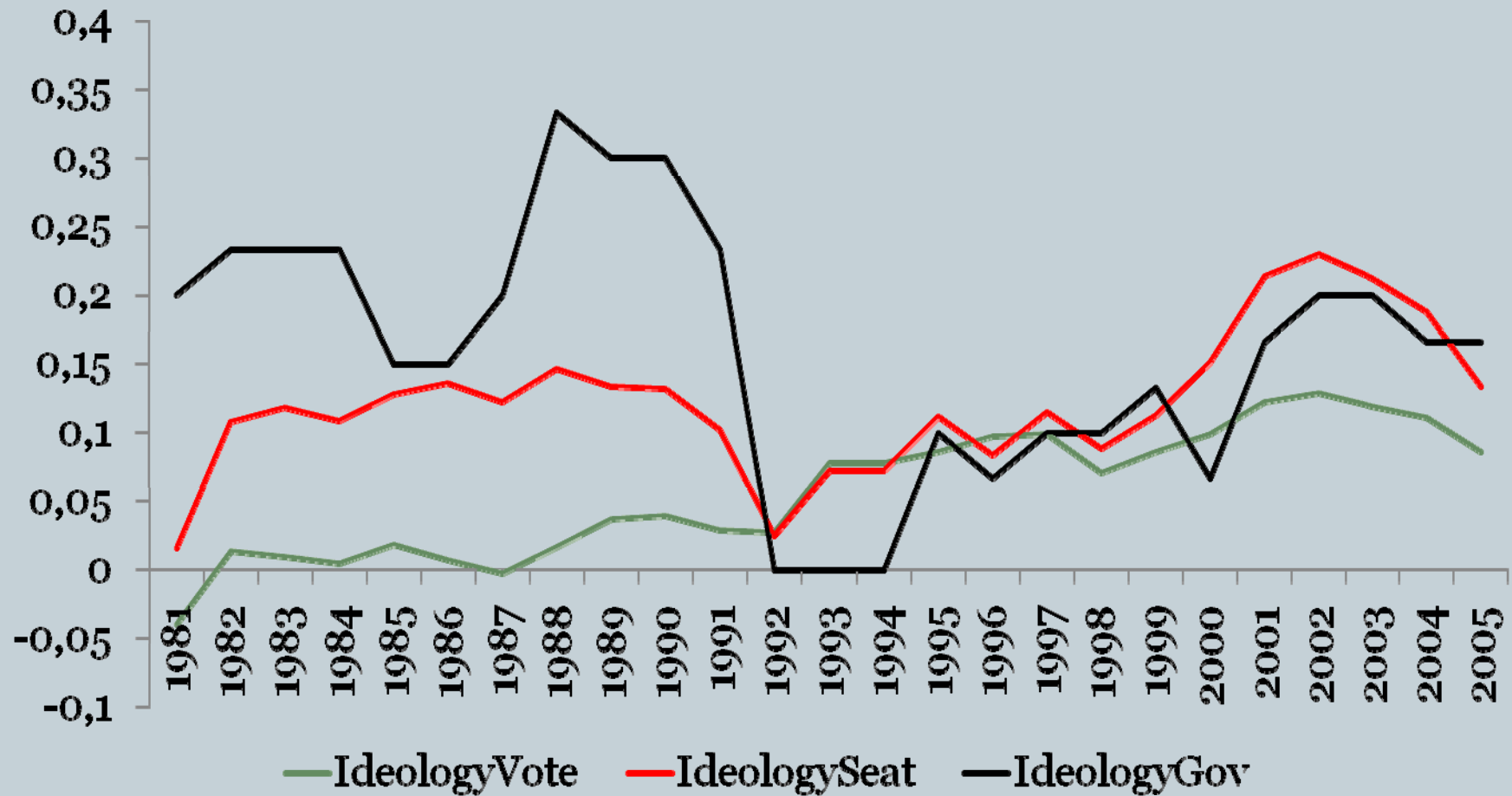
The Canadian party space

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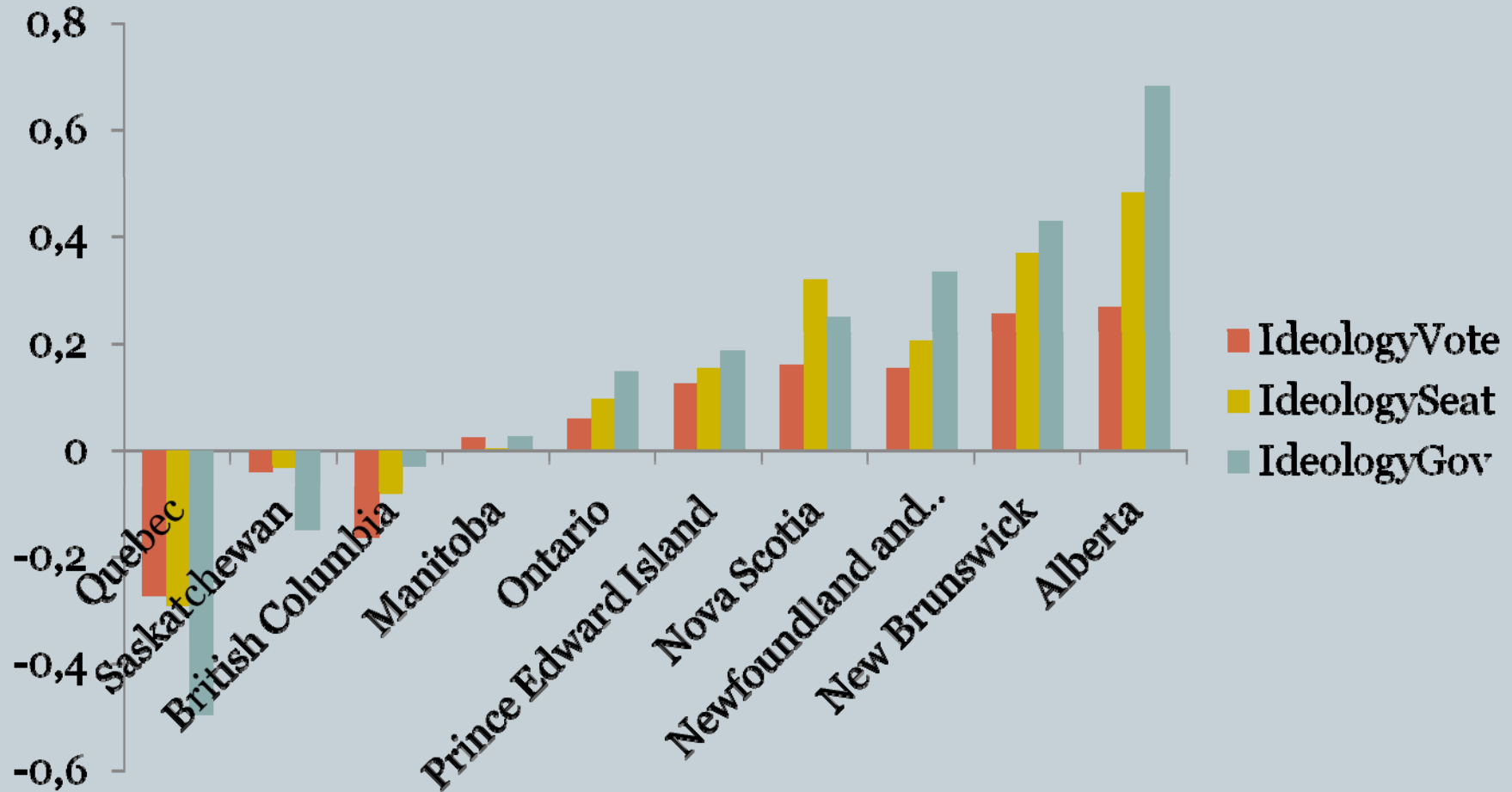
Average ideology over time

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Average ideology across ten provinces

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What can we expect?

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- Leftwing increases public expenditures (Tellier 2006)
- Ideological divides in value politics (e.g. abortion)
- At a broader level, rightwing -> market conformity

Why would we expect nothing?

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- Political traditions are different – characterized by the brokerage model
 - “party platforms are generally vague and it is typical following elections for governments to embark on major new policies not mentioned in the general election and with little consultation of parliamentary caucuses” (Malloy 2003)

Why would we expect nothing?

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- Canadian politics - the brokerage model
 - Vague election campaigns – no real promises
 - Consensus politics in provincial parliaments
 - ‘Corridor deals’ among leading parties
 - Governments broker deals instead of deciding policy

Ideological effects in a brokerage model

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- Party ideology is vague, but party discipline is strong
 - Westminster system, including whips
- Deals reflect the bargaining power of different ideological positions, not that of the government
- -> *parliamentary* versus *government* ideology

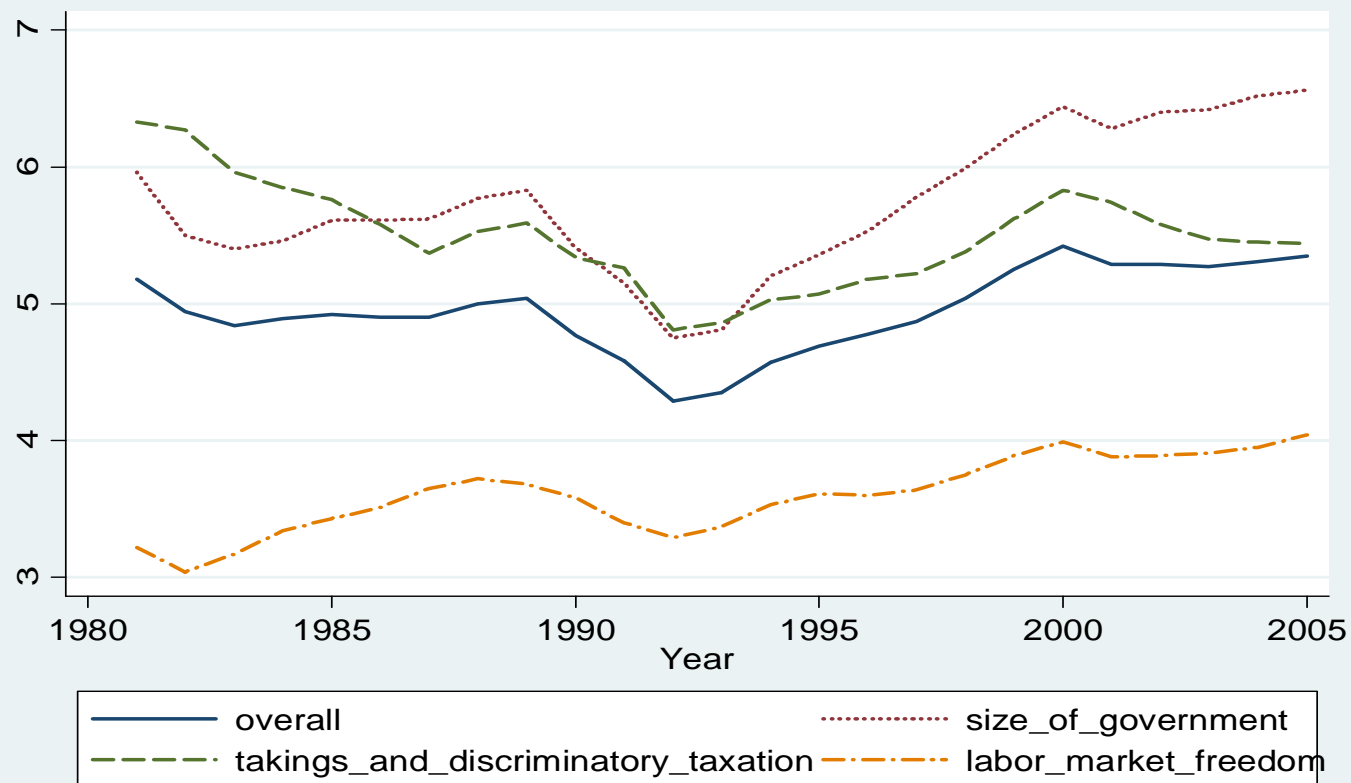
Three indices of economic freedom

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- Size of government: general government consumption expenditure, transfers and subsidies, and social security payments
- Tax structure: tax revenue, the top marginal tax rate and its applied income threshold, indirect tax revenue and sales taxes
- Labor market freedom: minimum wage legislation, government employment, union density.

Economic freedom over time

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The specification

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- $\Delta \ln \text{Economic Freedom Index}_{ijt} = \alpha \text{Ideology}_{it} + \sum_k \beta_k \Delta \ln X_{ikt} + \beta_l Z_{ilt} + \eta_i + \varepsilon_t + u_{ijt}$
- X is vector consisting of unemployment, external trade, political competition
- Fixed period and province effects

Estimation strategy

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- Feasible generalized least squares
- Heteroscedasticity and autocorrelation consistent Newey-West type standard errors
- Identification of province-specific changes in economic freedom

First results – government ideology

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	(1)	(2)	(3)	(4)
	Overall index	Size of government	Takings and discr. taxation	Labor market freedom
Ideology Government (rightwing)	0.0057 [0.92]	0.0027 [0.35]	0.0043 [0.68]	0.0148** [2.82]
Herfindahl-Hirschman Index	-0.0142 [0.26]	0.0565 [0.62]	-0.1129 [1.43]	-0.0348 [0.47]
Δ ln Unemployment rate (five-year average)	0.0527 [0.52]	0.005 [0.04]	0.1076 [1.05]	0.0259 [0.23]
Δ ln Trade	0.0411 [0.63]	0.033 [0.28]	0.0548 [0.73]	0.1244*** [3.95]
Constant	-0.0439** [2.71]	-0.0789*** [3.67]	-0.0045 [0.19]	-0.0457** [2.62]
Fixed country effects	Yes	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes	Yes
Observations	240	240	240	240
Number of countries	10	10	10	10
R-squared (overall)	0.46	0.34	0.43	0.39

First results – parliamentary ideology

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	(1)	(2)	(3)	(4)
	Overall index	Size of government	Takings and discr. taxation	Labor market freedom
Ideology Parliament (rightwing)	-0.0015 [0.10]	-0.0117 [0.54]	0.0028 [0.17]	0.0138 [0.86]
Herfindahl-Hirschman Index	-0.0054 [0.08]	0.0518 [0.53]	-0.1031 [1.13]	0.0023 [0.03]
$\Delta \ln$ Unemployment rate (five-year average)	0.0495 [0.49]	0.001 [0.01]	0.106 [1.04]	0.0216 [0.19]
$\Delta \ln$ Trade	0.0412 [0.65]	0.0313 [0.27]	0.0555 [0.75]	0.1275*** [4.17]
Constant	-0.0429** [2.46]	-0.0768*** [3.46]	-0.0044 [0.17]	-0.0459** [2.64]
Fixed country effects	Yes	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes	Yes
Observations	240	240	240	240
Number of countries	10	10	10	10
R-squared (overall)	0.46	0.34	0.43	0.38

First results

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- No effects on the size of government or the tax burden or tax structure
- *Government* ideology is associated with labor market freedom – inconsistent with a brokerage model

Further results - robustness

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	(1) Overall index	(2) Size of government	(3) Takings and discr. taxation	(4) Labor market freedom
Ideology Government (rightwing)	0.0057 [1.20]	0.0023 [0.28]	0.0045 [0.87]	0.0157*** [2.62]
Herfindahl-Hirschman Index	-0.0235 [0.30]	0.0578 [0.43]	-0.1202 [1.42]	-0.0477 [0.49]
Δ ln Unemployment rate (five-year average)	0.0516 [0.72]	-0.013 [0.10]	0.1129 [1.44]	0.0242 [0.27]
Δ ln Trade	0.0481 [1.14]	0.0528 [0.73]	0.0557 [1.20]	0.1402*** [2.64]
Lagged dependent variable	-0.0108 [0.19]	-0.0655 [1.14]	0.0055 [0.10]	-0.0444 [0.78]
Fixed country effects	Yes	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes	Yes
Observations	230	230	230	230
Number of countries	10	10	10	10

Further results – splitting labor indices

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	(1)	(2)	(3)
	Minimum wage legislation	Government employment	Union density
Ideology Government (rightwing)	-0.0104 [0.95]	-0.0099* [2.11]	-0.0059* [2.11]
Herfindahl-Hirschman Index	0.0024 [0.04]	-0.0033 [0.04]	0.0185 [0.46]
Δ ln Unemployment rate (five-year average)	-0.0051 [0.05]	-0.0328 [0.71]	-0.0625 [0.98]
Δ ln Trade	0.0249 [0.43]	-0.0452 [1.59]	-0.0215 [0.54]
Constant	0.0071 [0.42]	0.0384*** [3.74]	0.0051 [0.39]
Fixed country effects	Yes	Yes	Yes
Fixed period effects	Yes	Yes	Yes
Observations	240	240	240
Number of countries	10	10	10
R-squared (overall)	0.30	0.46	0.43

The effects of ideology

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- Employment shifts towards more public, less private, employment with more leftwing governments
- Union density is lower with rightwing governments

The size of effects

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- Increase from social liberal to classic liberalist / socialist to Red Tory:
 - growth rate of the government employment share decreases by 1%
 - growth rate of the union density decreases by 0.6%

Last robustness tests

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- Robust to additional controls
- Robust to excluding single provinces, single years
- Clear effects when ideology is lagged one period – i.e. not a sign of voter responses to liberalization

Conclusions

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- Government ideology affected labor market freedom
- Results are *not* consistent with popular view of Canadian politics as brokerage
- Results are only *partially* consistent with international evidence – US evidence tends to single out taxation as the ideological policy

A further research program

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- We find evidence of ideological effects in 'non-ideological' country
- Does ideology do the same in all political systems?
- Does ideology affect the same factors?
- Planned analyses for US, Australia, perhaps Germany