Ideological Orientation: Does it Still Make a Difference?

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Introduction

Political scientists, in the course of the past decade, have extensively debated whether and to what extent party organizations have changed, whether these changes in party organization have lead to party system changes (that is to the way in which parties relate to each other and interact), and whether it is appropriate to argue that party systems in advanced industrial nations now resemble oligopolistic markets.¹

Analysis of survey data has revealed that in several Western societies, an increasing proportion of voters fails to detect differences between parties in terms of programs and arguably policy outputs.² The analysis of survey data also shows what voters mean when they report that parties have become increasingly similar or have actually become so similar that they can no longer be distinguished from each other: voters perceive that while the parties of the Right have basically remained where they are, the parties of the Left have shifted rightward. Voters believe, or rather perceive, that the parties of the Left have moved closer to where the parties of the Right stand. The gap between the Left and the Right has diminished and with it, the substantive political and policy differences between the Left and the Right have also decreased.

The purpose of the present paper is to provide an explanation for why voters think that the parties of the Left have become increasingly more similar to the parties of the Right. My answer, in this respect, is very straightforward. The parties of the Left are perceived to have shifted right-ward and to be more similar to the parties of the Right, because the parties of the Left, while in office, are no longer able to implement the main tenets of Keynesianism (commitment to full employment and reduction of inequality), which featured so prominently in the political discourse and programs of the parties of the Left.

In the present paper I will proceed as follows. In the first section part I will discuss the meaning of the Left-Right distinction, the equalitarian nature of nature of the Left, and how Keynesianism provided the governments of the Lefts with the tools to translate an ideological commitment to equality into viable political programs. In the second part of the paper I will show however the governments of the Left are no longer able to deliver the political output that they delivered in the 1950s and 1969s. Aggregate data on unemployment and inflation outcomes in relation to the political orientation of the 12 Western democracies reveal that a country’s macroeconomic configuration is virtually unaffected by whether that country has been regularly governed by parties (and/or coalitions of parties) of the Left or of the Right. Time series analysis of yearly unemployment data for the 1970-1999 period provides additional evidence that changes in a country’s unemployment level are no longer a function of the government’s political orientation. Unemployment no longer declines when the Left is in office and no longer increases when the Right is in office. The evidence provided by both aggregate data and
time series analysis is important because it shows that the relationship between parties and macroeconomic outcomes has dramatically changed from when Hibbs published his influential research\(^3\). Similarly I will show that a country’s inequality is not significantly affected by whether that country is or has been regularly governed by the parties of the Left or the parties of the Right. On the basis of time series analysis I will also be able to show that inequality no longer declines when the government has a left-leaning ideological orientation, while it does not increase when the government has a right-leaning ideological orientation. In the third part of the paper I will discuss some explanations as to why the Left is no longer able to reduce unemployment and inequality. In this part of the paper I will also argue that regardless of whether the governments of the Left are unwilling or unable to produce the results with which they appealed to Western Electorates, the fact that the Left is no longer making society more equal or just is probably the reason why a growing number of voters fails to detect any difference between the parties of the Left and the parties of the Right. In the final part of the chapter I draw some conclusions as to the significance of my findings.

Part One: Left and Right: the meaning of a political difference

The spatial representation of political differences provides an almost hegemonic analytical framework to both understand and explain politics. Why is the spatial representation of political preferences so important? Because spatial representation is also and

simultaneously an ideological representation with a clear moral content. Knowing where a party stands means knowing what the party stands for and whether that position/party is (morally) good or bad. Knowing a party’s location provides cognitive guidance. Huber and Inglehart underlined that “the language of the ‘left’ and ‘right’ captures a variety of salient issues that help citizens and elites alike make sense of the political landscape”. Similarly Dalton suggested that the spatial location is a sort of super issue, a synthetic indication of all that a voter and a party located in a certain place stands for. Spatial location provides more than just cognitive guidance but it also provides electoral guidance. Voter placed left-to-center are more likely to vote for parties that are perceived to be located left-to-center than right-wing voters and, conversely, self-reported right-wingers are more likely to vote for right-wing parties than self-reported left-wing voters. Last but not least, the language of left and right has an additional advantage, which is that it is highly comparable across countries. The language of left and right is in fact intelligible for a majority of Western voters and allows one to collect and analyze highly comparable data. Voters understand the notions of Left and Right and are able to locate themselves and parties alike on the Left-Right continuum.

What makes the language of left and right so comparable? The reason why the terms ‘left’ and ‘right’ are intelligible and comparable across countries is that the left-right

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7 This point has been disputed by Giovanni Sartori, Parties and Party Systems. A Framework for Analysis, New York, Cambridge University Press, 1976, p. 335.
dichotomy is believed to reflect a basic political difference, namely a different approach to equality.\textsuperscript{9} “The right is conservative because it accepts the inequalities, which are conceived as the necessary elements of a sort of natural order, while the Left is progressive because it does not accept these inequalities” as natural and tries to eliminate them.\textsuperscript{10} For the parties of the Left, as Ricolfi underlined, the market “generates and amplifies differences, and therefore it is necessary to correct these differences through several forms of regulation, ranging from Keynesian policies to the welfare state”.\textsuperscript{11}

Historically, the commitment to equality and social justice of the parties of the Left has embodied itself in a variety of forms. As universal suffrage was granted, in the course of the first wave of democratization, to the Western electorates, the parties of the Left (in their Socialist, Social-Democratic or Labor variants) were created to protect and promote the rights of the working class.\textsuperscript{12} The parties of the Left were fighting for better working conditions and more equitable salaries. The parties of the Left, in the international arena, have demonstrated their commitment to equality by opposing colonialism and by supporting the anti-colonial struggle in the periphery of the world-system. More recently the parties of the Left have demonstrated their commitment to equality by fighting, at the

\textsuperscript{9} This is for example the position of Bobbio, \textit{Destra e Sinistra}, op. cit; Luca Ricolfi, “Ancora destra e sinistra?”, \textit{Polena}, vol. 1, n.1, 2004, pp.9-39. Other scholars have argued instead that ‘left’ and ‘right’ are empty signifiers and they do not have a specific essence, see Sani and Sartori, “Frammentazione, Polarizzazione, e Cleavages”, op.cit.; Marco Tarchi, “Destra e Sinistra: due essenze introvabili”, \textit{Democrazia e Diritto}, vol. 34, n. 1, 1994, pp. 381-396.
\textsuperscript{10} Ricolfi, “Ancora destra e sinistra?”, op. cit., p. 10.
\textsuperscript{11} Ivi, p. 11.
\textsuperscript{12} Transitions are generally regarded as the period between the fall of a preexisting regime and the establishment of a new regime. When a transition ends with the establishment of a democratic regime, the transition is defined as democratic transition or democratization. There is a wave of democratization when the number of countries undergoing a democratic transition is larger than the number of countries experiencing a transition toward non-democratic rule or when the number of countries in which the quality of democracy increases is larger than the number of countries in which the quality of democracy worsens. More
domestic level, all forms of discrimination (due to gender, race or religion). But the most visible and possibly most important embodiment of the Socialist, Social-democratic and Labor parties’ commitment to social justice and equality in the aftermath of Second World War has been represented by Keynesianism. Keynesianism showed not only what governments of the Left would do in office but also that they were fit to govern.

Keynesianism was seen as a good solution to protect democracy, to protect the market and to protect the interests of the capitalists. While some scholars, such as Hayek, believed that the collapse of liberal democracies in the inter-war period was the result of the state intervention in the markets, they Keynesians argued instead that the rise of authoritarian regimes represented a reaction against the marketization of societies. The argument of the Keynesians, as formulated, for example, by Polanyi, was that dis-embedded liberalism had reduced all forms of social relations to economic relations, that by doing so dis-embedded liberalism had posed a threat to the very fabric of society, and that the rise of non-democratic regimes represented, so to speak, a mechanism for societies’ self-defence. Societies were turning to non-democratic forms of government to stop the marketization of society and protect themselves. The obvious implication of this point was that in order to protect democracy, it was necessary to embed liberalism, to prevent market forces from reducing all types of social relations to economic ones, and that Keynesianism was the proper way to embed liberalism.

details on these issues can be found in Samuel P. Huntington, The Third Wave of Democratization, London, The University of Oklahoma Press.
13 Hayek’s view can be found in Friedrich von Hayek, The road to serfdom, Chicago, The University of Chicago Press, 1944; Karl Polanyi’s argument can be found in the Karl Polanyi, The great transformation. The Political and Economic Origins of Our Time, Boston, Beacon Press, 1944.
Keynesianism was also seen as a good solution to protect the markets. Keynesians conceived the great depression and the crisis of the world economy as a deflationary crisis. With the expectation that prices would decline, customers were not buying good, lower consumption levels provided an incentive to decrease production, lower levels of production reduced the need for labor, increasing number of workers lost their jobs and, with it, with a stable source of income with which they could buy goods in the market in what turned out to be a really vicious cycle. The Keynesians believed that this crisis could have been avoided or, at least, the proportions of the crisis could have been minimized if some minimal level of consumption had been preserved. The adoption of Keynesian framework served exactly this purpose: to create a safety net, to stimulate demand, to ensure some levels of consumption, and to protect the economy.

Keynesianism was also seen as a good solution to protect the interests of the capitalists. In the wake of the Fall of Berlin wall, and the collapse of Soviet Union – a collapse that was due to the failure of the Communist experiment of planned economy – it was all too quickly forgotten that the Soviet economy in the aftermath of WWII was quite successful. In those years, the argument formulated by the Austrian economists as to why planned economies were bound to fail, did not have much currency in the market of ideas. Economic planning seemed to work quite well and, in some instances, even better than market economy. In the light of the (real or alleged) successes of the Soviet economy and of the (real or alleged) limitations of the market economy, Keynesianism represented, in the eyes of the industrialist class, the least of two evils. Gourevitch, in this respect,

observed that with the adoption of the Keynesian paradigm “labor accepted capitalist management of the economy, in exchange for welfare system, higher wages, and employment-oriented macroeconomic policies”. Meanwhile, industrialists accepted higher wages, state intervention in the economy and equalizing policies in exchange for the survival of market economy. As such Keynesianism was not only attractive for the working class or for the parties of the Left, as it provided them with a clear government program, but it was also attractive for the industrialist class. Hence, in the wake of WWII Keynesianism was also the basis for a class compromise.

The adoption of the Keynesian paradigm had two practical implications: one was the creation (or further articulation) of the welfare state, and the second was management demand to sustain employment. As it will be shown in the next section, the parties and the governments of the Left were not simply nominally committed to the main tenets of Keynesianism (full employment and equality), but they were actually able, when in office, to lower unemployment and to reduce social inequalities.

**Part Two: Ideological Orientation, Macroeconomic Outcomes and Inequality**

In the wake of WWII, the parties of the Left and parties of the Right used to have different preferences as to the macroeconomic configuration and those preferences affected macroeconomic outcomes. Hibbs showed that macroeconomic outcomes and configurations were profoundly affected by the ideological orientation of a government. Hibbs not only found that the average inflation rate and the average unemployment rate

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were negatively related, but he also found that five of the six nations enjoying a below average unemployment rate were countries in which Socialist (or Social-Democratic or Labor) parties had been in power for most of the post WW II period and that they also had an above average inflation rate. Similarly, Hibbs found that the governments of the nations with an above-average unemployment had been dominated by center- or right-wing parties. This patterns was not entirely respected by the Belgian and the British case. For Hibbs this evidence meant not only that the Phillips curve provided the proper framework to analyze countries macroeconomic configuration, but also that countries’ macroeconomic configuration were a function of a government’s political orientation.

This conclusion was supported by the results of correlation analysis. By correlating the percentage of years that parties of the Left had been in power with the average percent inflation rate, Hibbs found a strong and positive association (r = +.74). The meaning of this association was clear for Hibbs: the average percent inflation rate is higher in countries where parties of the Left are generally in power because the parties of the Left are generally unemployment averse and tend to tolerate some inflation if this is beneficial in keeping unemployment to low levels. To see whether parties of the Left were actually able to keep low levels of unemployment, Hibbs correlated the percent of years that parties of the Left were in office with the average percent unemployment rate. The analysis showed that the average percent unemployment rate is lower in countries where the parties of the Left are generally in office, while it is generally higher in countries where the parties of the

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16 Socialist parties had been in power for almost the entire post-war period in Sweden, for a large portion of the period in Denmark, Finland and Norway and for about two-thirds of the period in the Netherlands. The only exception was Germany that was exceptional in two respects. First, Germany was exceptional because it
Left are generally in opposition. The correlation yielded a strong and negative coefficient ($r = -.68$).

Hibbs’s conclusion was that “static, aggregated evidence has been presented in support of the hypothesis that macroeconomic outcomes systematically covary with political orientation of governments” and he underlined the importance of complementing the analysis of static, aggregated evidence with a “dynamic country-by-country analysis of postwar time-series data”\textsuperscript{17}. The time-series analysis performed with British and American data similarly suggested that a government’s political orientation affects a country’s level of unemployment. Parties’ different macroeconomic preferences did produce different macroeconomic outcomes.

Hibbs’ study investigated the 1960-1969 period. In this period parties had already shifted from the mass party of social integration model to catch-all parties, but were still distinguishable from each other. And their distinctiveness was reinforced by the way in which they handled the macroeconomic conditions of a country. If Katz and Mair are right in identifying the early 1970s as the point when the cartel party emerged, then voters’ perception of the cartel is justified by the fact that parties are no longer distinguishable. Moreover, if the management of the macroeconomic conditions represents the terrain in which parties used to distinguish themselves, then it is relatively easy to test whether the perception of the cartel is justified or not. If parties in office have a significant effect on macroeconomic conditions or levels of equality, then parties are still distinguishable and there is no justification for the perception of the cartel. On the contrary, if parties in office

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10 had not been generally ruled by a party of the Left. Second, Germany was exceptional because it had a low unemployment-low inflation configuration.
do not have a significant influence over the macroeconomic conditions or equality then parties are not distinguishable from each other and this, in turn, provides evidence as to why voters reportedly perceive the cartel.

Beginning with the analysis of the static, aggregate data from the 1970-1999 period, I find that six countries have below average unemployment. Interestingly, one of these countries, the USA, does not even have a politically important Socialist or Labor Party. In Germany, there is a strong Social-Democratic party, which however, was in opposition most of the time in the period under study. In Denmark and in the Netherlands, the parties of the Left were in a coalition government for about half of the time in the 1970-1999 period, while the parties of the Left were in power for about two-thirds of the period in both Norway and Sweden. Only in two of these countries (Denmark and Sweden) was the average inflation rate higher than the sample average, while in Germany, the Netherlands, Norway, and in the USA the average inflation rate was below average. These findings are interesting since they show that, with the exception of the Swedish and the Danish case, there seems to be little if any correlation between government’s ideological orientation and the macroeconomic outcome. The parties of the Left are no longer the parties of low unemployment and high inflation.

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18 This means that these countries have an average level of unemployment which is lower than the average level of unemployment recorded for the whole sample.
19 The Democratic party is located to the left of the Republican party, but it does not belong to the tradition of the Left in its various (Socialist, Social-democratic or Labor) manifestations.
20 A similar conclusion is reached by William Roberts Clark, Capitalism, Not Globalism, chapter 6 (forthcoming). Controlling for contextual factors such as the labor market institutions, Roberts Clark found that “Left governance is associated with decreased GDP growth when labor markets are weak and decentralized, but not otherwise. Similarly, there is some evidence that left governance leads to higher rates of unemployment if and only if labor unions are weak and decentralized. There is (…) no evidence that governments dominated by left parties are associated with higher rates of growth or lower unemployment.
The results are no less striking once the countries with above average unemployment are analyzed. In fact, consistent with what one would have expected in the light of Hibbs’ work, in some of these high unemployment countries the parties of the Left have been politically unimportant (Canada), mostly in opposition (UK), or at least often in opposition as in French case where, a PSF-PCF coalition government was not formed until 1981. Yet, contrary to what Hibbs’s work suggested, above average unemployment was also recorded in countries where parties of the Left had been in power. Socialist parties have been government coalition members for about two-thirds of the 1970-1999 period in both Belgium and Italy, while the Socialists have been a government member almost 83 per cent of the period in Finland. Only in three of these above average unemployment countries, was there also below average inflation (Belgium, UK, and Canada), while in the other three countries (Finland, France and Italy) there was an above average inflation rate. Moreover, in each of these countries the unemployment levels are considerably much higher than they were in the 1960s.

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21 Experts in Italian Politics would probably question this statement. It has, in fact, often been argued that the Italian Socialist Party (PSI) was not, and, hence should not be considered, a party of the Left after 1979, that is after Bettino Craxi became the party secretary. Although I am aware of this possible problem, I decided to consider the PSI as a party of the Left in order to operationalize my variables in exactly the same way in which they were operationalized and measured by Hibbs.

Figure 1. Average Inflation and the Left in Government (% of years), 1970-1999.

**Inflation and the Left**

![Graph showing the relationship between inflation and the percentage of years the Left was in government](image)

Rsq = 0.0844

Note: 1 = Belgium, 2 = Denmark, 3 = Finland, 4 = France, 5 = Germany, 6 = Italy, 7 = the Netherlands, 8 = Norway, 9 = Sweden, 10 = United Kingdom, 11 = United States and 12 = Canada.

All these data suggest that in the period under study, the relationship between governments’ political configuration and macroeconomic outcomes has come unstuck.

This conclusion is supported by correlational analysis. Using highly aggregated data, Hibbs found a strong, positive association between average percent inflation rate and percent of years that parties of the Left have been in office. The data concerning the 1970-1999 period show that that relationship is much weaker ($r = +.29$) than it was in the period analyzed by Hibbs ($r = +.74$) and it is not statistically significant. Data are presented in Figure 1. Moreover, the data presented in Figure 2 suggest that the relationship between average percent unemployment and the percent of years the Left has been in office for the
1970-1999 period is much weaker ($r = -0.19$) than it was in the 1960-69 period ($r = -0.68$) and, in this case as well, it is not statistically significant.

Figure 2. Average Unemployment and the Left in Government (% of years), 1970-1999.

Unemployment and the Left

<table>
<thead>
<tr>
<th>Governments of the Left % Years</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>8</td>
</tr>
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<td>6</td>
<td>7</td>
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<td>4</td>
<td>6</td>
</tr>
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<td>3</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>-20</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: 1 = Belgium, 2 = Denmark, 3 = Finland, 4 = France, 5 = Germany, 6 = Italy, 7 = the Netherlands, 8 = Norway, 9 = Sweden, 10 = United Kingdom, 11 = United States and 12 = Canada.

The data presented above sustain the claim that inter-party differences in the management of the economy and of the macroeconomic conditions have declined from the early 1970s onward. In order to assess whether parties’ political orientations affect the levels of unemployment, we need a model that permits estimation of the hypothesized effects of government macroeconomic policies on the unemployment rate, net of secular trends. Trends are shown in Figure 3.
Figure 3. Trends in Unemployment Levels

USA

Canada

Belgium

Denmark

Finland

France

Italy
To investigate whether the levels of unemployment are affected by parties’ political orientations, I construct the following model:

\[ U_t = a + b_1 \text{Left} + b_2 U_{t-1} \quad (1) \]

Where \( U_t \) represents the unemployment rate in a given year, and \( U_{t-1} \) represents the unemployment rate in the previous year. By constructing this model I am able to control for the effects of secular trends, which could bias my assessment of the influence of party orientation on the levels of unemployment. The results are presented in Table 1.

<table>
<thead>
<tr>
<th>Unemployment in country</th>
<th>A (SE)</th>
<th>b1 (SE)</th>
<th>b2 (SE)</th>
<th>R-squared (SE)</th>
<th>Durbin-Watson d</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2.084 (.012)</td>
<td>-.705 (.048)</td>
<td>.711 (.000)</td>
<td>.622 (.000)</td>
<td>1.503</td>
</tr>
<tr>
<td>UK</td>
<td>1.116 (.083)</td>
<td>-.369 (.466)</td>
<td>.872 (.000)</td>
<td>.872 (.000)</td>
<td>.842</td>
</tr>
<tr>
<td>France</td>
<td>.743 (.024)</td>
<td>.054 (.845)</td>
<td>.936 (.000)</td>
<td>.963 (.000)</td>
<td>1.063</td>
</tr>
<tr>
<td>Germany</td>
<td>1.256 (.040)</td>
<td>-.429 (.300)</td>
<td>.859 (.000)</td>
<td>.926 (.000)</td>
<td>1.100</td>
</tr>
<tr>
<td>Norway</td>
<td>.352 (.215)</td>
<td>.070 (.764)</td>
<td>.899 (.000)</td>
<td>.867 (.000)</td>
<td>1.228</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.022 (.013)</td>
<td>-.996 (.17)</td>
<td>.964 (.000)</td>
<td>.909 (.000)</td>
<td>.971</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.359 (.014)</td>
<td>-.342 (.342)</td>
<td>.904 (.000)</td>
<td>.941 (.000)</td>
<td>.678</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.631 (.033)</td>
<td>-.282 (.599)</td>
<td>.801 (.000)</td>
<td>.754 (.000)</td>
<td>1.499</td>
</tr>
<tr>
<td>Netherlands</td>
<td>.918 (.104)</td>
<td>-.089 (.822)</td>
<td>.887 (.000)</td>
<td>.866 (.000)</td>
<td>.881</td>
</tr>
<tr>
<td>Finland</td>
<td>4.328 (.000)</td>
<td>-.329 (.000)</td>
<td>.802 (.000)</td>
<td>.932 (.000)</td>
<td>1.738</td>
</tr>
<tr>
<td>Italy</td>
<td>.841 (.070)</td>
<td>-.088 (.749)</td>
<td>.934 (.000)</td>
<td>.935 (.000)</td>
<td>1.893</td>
</tr>
</tbody>
</table>

The data presented in the Table 1 suggest that the relationship between unemployment rate and political orientation is not significant in most of the countries under study with the exception of Finland and Sweden. These findings support the claim that there is almost no detectable influence of governments’ ideological orientation over
the unemployment levels. Yet, these findings might not be as convincing as they appear *prima facie*. All of the regressions presented in Table 1 involve time series data and there is a possibility that our dependent and independent variable may be cointegrated and that the results of the regression analysis may be spurious. To check whether this is the case, I perform the Cointegrating Regression Durbin-Watson Test (CRDW). Since all the regression models presented in Table 1 have \( n = 30 \) and two explanatory variables, the lower limit of \( d (d_L) \) is 1.284 and the upper limit of \( d (d_U) \) is 1.567. This means that if the estimated value of \( d \) is greater than 1.567 there is no evidence of first-order serial correlation. If the estimated value of \( d \) is lower than 1.284 there is evidence of first order serial correlation. If the estimated value of \( d \) is between the lower and the upper limit there is inconclusive evidence of either presence or absence of first-order serial correlation. The values of the Durbin-Watson \( d \) are reported in the last column of Table 1 and suggest that in two cases (Finland and Italy) there is no evidence of cointegration. Second, that in two cases the Durbin-Watson \( d \) fall between the lower and the upper limit (USA and Denmark). Third, in the other cases there is strong evidence of cointegration. This means that the results of the analyses performed for these countries are spurious.

To correct this problem of cointegration I run the following model

\[
U_t = a + b_1 \text{Left} + b_2 U_{t-1} + b_3 \hat{u}_{t-1} \quad (2)
\]

where \( U_t \) indicates the unemployment rate in a given year, \( \text{Left} \) denotes whether a party of the Left is in office, \( U_{t-1} \) is the unemployment rate in the previous year and \( \hat{u}_{t-1} \) is the one-

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23 If there is cointegration, the residuals are autocorrelated instead of being randomly distributed. This violates one of the OLS assumptions and generates spurious estimates.
period lagged of the residual from regression (1) which operates as the equilibrating error\textsuperscript{24}. More specifically, the $\hat{u}_{t-1}$ term captures the long-term disturbances and adjusts the short-run behavior of our dependent variable to its long-term value so that, when it is statistically significant, it indicates to what extent the disequilibrium in the dependent variable in one period is corrected in the following period. Hence, by running the regression model (2) for the seven countries in which cointegration was detected, we obtain more reliable estimates—which are presented in Table 2. The findings are consistent with those presented in Table 2. The relationship between unemployment rate and ideological orientation is generally non-significant, with the exception of Sweden. All these analyses suggest that there is almost no detectable influence of parties over unemployment, that it makes no difference who is in power for the unemployment rate and that this, in turn, contributes to voters’ perception of parties’ excessive similarity among one another and of cartelization.

Table 2 Does government’s political orientation affect unemployment? Regression Analyses Correcting for Cointegration.

<table>
<thead>
<tr>
<th>Country</th>
<th>A</th>
<th>b1</th>
<th>b2</th>
<th>b3</th>
<th>R-squared</th>
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<tbody>
<tr>
<td>Belgium</td>
<td>1.740</td>
<td>-.070</td>
<td>.844</td>
<td>.737</td>
<td>.967</td>
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<tr>
<td></td>
<td>(.000)</td>
<td>(.789)</td>
<td>(.000)</td>
<td>(.000)</td>
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<td>France</td>
<td>.983</td>
<td>.137</td>
<td>.900</td>
<td>.508</td>
<td>.968</td>
</tr>
<tr>
<td></td>
<td>(.004)</td>
<td>(.598)</td>
<td>(.000)</td>
<td>(.021)</td>
<td></td>
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<tr>
<td>Germany</td>
<td>1.643</td>
<td>-.468</td>
<td>.799</td>
<td>.493</td>
<td>.937</td>
</tr>
<tr>
<td></td>
<td>(.006)</td>
<td>(.213)</td>
<td>(.000)</td>
<td>(.011)</td>
<td></td>
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<tr>
<td>Netherlands</td>
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<td>.632</td>
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<td>(.650)</td>
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<td>(.002)</td>
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<tr>
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</tr>
<tr>
<td>Sweden</td>
<td>1.056</td>
<td>-.800</td>
<td>.908</td>
<td>.580</td>
<td>.936</td>
</tr>
<tr>
<td></td>
<td>(.004)</td>
<td>(.033)</td>
<td>(.000)</td>
<td>(.006)</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>1.935</td>
<td>-.579</td>
<td>.767</td>
<td>.674</td>
<td>.916</td>
</tr>
<tr>
<td></td>
<td>(.000)</td>
<td>(.183)</td>
<td>(.000)</td>
<td>(.000)</td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{24} To know more about cointegration and error correction term, see Damodar N. Gujarati, \textit{Basic...
But fighting unemployment was not the only item in the political agenda of the
governments of the Left. As Przeworski pointed out “in all its forms, the Keynesian
compromise consisted of a dual program: “full employment and equality”, where the first
term meant regulation of the level of employment via the management of demand,
particularly government spending, and the latter consisted of the net of social services that
constituted the “welfare state””. The evidence just provided shows that from 1970
onward the government of the Left have not been able to maintain full employment, have
they been able to Left able to reduce inequality?

To investigate whether the levels of inequality are affected by governments’
ideological orientation, I construct the following model:

\[ I_t = a + b_1 \text{Left} \]  \hspace{1cm} (3)

I perform this regression analysis for all the countries for which it was possible to
construct a time series. By performing this analysis I find that none of the regression
coefficients, with the notable exception of the British one, is statistically significant and it
is not quite possible to conclusively argue whether the Left is able to reduce inequality as
the coefficients for the Belgian, the Danish, the French or the Italian case seem to suggest,
or whether the Left is not able to reduce levels of inequality as the regression coefficients
for the other cases indicate.

### Table 3. Governments’ ideological orientation and income inequality

<table>
<thead>
<tr>
<th>Inequality in</th>
<th>Intercept (SE)</th>
<th>Unstandardized b-coefficient for Left in Office (SE)</th>
<th>R-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>35.383 (.000)</td>
<td>-2.410 (.714)</td>
<td>.024</td>
</tr>
<tr>
<td>Denmark</td>
<td>36.765 (.000)</td>
<td>-1.650 (.457)</td>
<td>.031</td>
</tr>
<tr>
<td>Finland</td>
<td>30.337 (.000)</td>
<td>+.314 (.760)</td>
<td>.004</td>
</tr>
<tr>
<td>France</td>
<td>37.668 (.000)</td>
<td>-2.754 (.664)</td>
<td>.052</td>
</tr>
<tr>
<td>Germany</td>
<td>33.825 (.000)</td>
<td>+.713 (.528)</td>
<td>.029</td>
</tr>
<tr>
<td>Italy</td>
<td>37.269 (.000)</td>
<td>-2.061 (.145)</td>
<td>.108</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>29.659 (.000)</td>
<td>+1.188 (.169)</td>
<td>.052</td>
</tr>
<tr>
<td>Norway</td>
<td>32.627 (.000)</td>
<td>-.662 (.651)</td>
<td>.012</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.088 (.000)</td>
<td>+.892 (.424)</td>
<td>.031</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33.927 (.000)</td>
<td>-4.670 (.029)</td>
<td>.170</td>
</tr>
<tr>
<td>United States</td>
<td>39.856 (.000)</td>
<td>+1.636 (.048)</td>
<td></td>
</tr>
</tbody>
</table>

To investigate whether the levels of inequality are affected by the ideological orientation of governments, I construct a second model:

\[
I_t = a + b_1 \text{Left} + b_2 I_{t-1} \quad (4)
\]

Where \(I_t\) represents the level of inequality in a given year, and \(I_{t-1}\) represents the inequality rate in the previous year. By performing this second analysis I am able to control for the
possibility that the results of the regression analysis are spurious. To see whether the results of the analysis are spurious or not, perform the CRWD test, and I find that the estimated $d$ is greater than the upper $d (dU)$ and, therefore, there is no evidence of first order serial correlation. In other words, the results of the analyses are not spurious, but do they provide any evidence as to whether the Left is able to reduce inequality levels when it is in office?

With the exception of the German case, where the Left’s ability to reduce inequality remains intact even when we control for the effects of previous levels of inequality, in all the other instances once we control for temporal trends the governments’ impact on the levels of inequality is statistically insignificant and, in some instances, improperly signed.26

<table>
<thead>
<tr>
<th>Inequality in country</th>
<th>A (b1)</th>
<th>b1 for Left in Gov’t</th>
<th>b2 for previous year inequality</th>
<th>R-squared</th>
<th>Durbin-Watson d</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>52.171 (.000)</td>
<td>+.918 (.609)</td>
<td>-.421 (.102)</td>
<td>.181</td>
<td>1.840</td>
<td>17</td>
</tr>
<tr>
<td>Finland</td>
<td>20.143 (.013)</td>
<td>-.048 (.958)</td>
<td>+.340 (.178)</td>
<td>.094</td>
<td>2.001</td>
<td>22</td>
</tr>
<tr>
<td>Germany</td>
<td>24.052 (.025)</td>
<td>-.2186 (.044)</td>
<td>+.314 (.201)</td>
<td>.728</td>
<td>2.318</td>
<td>7</td>
</tr>
<tr>
<td>Italy</td>
<td>9.075 (.230)</td>
<td>-.458 (.702)</td>
<td>+.753 (.002)</td>
<td>.601</td>
<td>1.700</td>
<td>15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10.059 (.349)</td>
<td>+.760 (.491)</td>
<td>+.656 (.091)</td>
<td>.580</td>
<td>1.712</td>
<td>14</td>
</tr>
<tr>
<td>Norway</td>
<td>26.184 (.010)</td>
<td>-1.435 (.255)</td>
<td>+.200 (.465)</td>
<td>.180</td>
<td>2.026</td>
<td>13</td>
</tr>
<tr>
<td>Sweden</td>
<td>18.493 (.008)</td>
<td>+.737 (.519)</td>
<td>+.365 (.105)</td>
<td>.179</td>
<td>1.795</td>
<td>21</td>
</tr>
<tr>
<td>UK</td>
<td>7.388 (.189)</td>
<td>-.162 (.927)</td>
<td>+.787 (.000)</td>
<td>.596</td>
<td>2.680</td>
<td>27</td>
</tr>
<tr>
<td>USA</td>
<td>15.433 (.024)</td>
<td>+.452 (.525)</td>
<td>+.617 (.001)</td>
<td>.459</td>
<td>2.237</td>
<td>27</td>
</tr>
</tbody>
</table>

26 The coefficients for the Danish, the Dutch, the Swedish and the American case are positive and suggest that, were the coefficients statistically significant, that inequality increases when the Left is in office.
The results of the analyses presented in this section of the paper suggest a simple conclusion: the governments of the Left in the course of the past 30 years have been unable to keep full employment and to promote equality, that it is they have not been not able to deliver the major benefits that had traditionally been associated with Keynesianism and with the governments of the Left. In the section, we will discuss not only why the Left has lost its ability to implement redistributive policies but also what are some of the most important implications of this change.

Part Three: an explanation

The evidence provided in the previous section is important but per se insufficient. The regression analyses show that governments’ ideological orientation no longer produces demonstrably different macroeconomic outcomes (lower unemployment) and lower levels of inequality. Yet, they do not provide an explanation for why that is the case. The purpose of the present section is twofold. First of all, I will try to integrate the quantitative evidence provided above with a qualitative discussion of why macroeconomic outcomes and inequality levels are no longer affected by governments’ ideological orientation. Second I will try to discuss the implications of the transformation of the parties of the Left and their ability to implement their Keynesian programs.

Political science literature discussed several reasons why the governments of the Left are no longer able to maintain their commitment to full employment and equality. Why?
For Przeworski, the answer lies in the liberalization of markets. Liberalization undermined the Keynesian framework by giving business a viable rationale to claim a change of the terms of class compromise. In the light of market liberalization, the business class could argue that the world market requires the business sector to stay competitive, that the competitiveness of products mainly relies on low prices, that in order to lower prices – since profits cannot be cut, because they represent the “necessary condition of investment and investment is a necessary condition of continued production, consumption and employment”\(^27\) – costs should be reduced and that, in order to reduce costs, the state had to lower taxes, deregulate, provide the conditions for greater flexibility, to pursue deflationary policies and to cut public spendings\(^28\). In other words, the business class identified in the Keynesianism demand management the obstacle to competitiveness, demanded that the Keynesian framework were abandoned and as the business class demanded, Western democratic states supplied. But why did the parties and the governments of the Left gave up Keynesianism?

The answer is found in the interaction of three factors. First, governments (including the governments of the Left) in the light of their inability to cope with stagflation started to believe that governments might not be able to provide a solution for macroeconomic problems and could actually be considered as their cause, as, for example, the political business cycle literature pointed out\(^29\). Second, the failure of Keynesianism to


cope with stagflation created a demand for economic theories and solutions for which Keynesianism had no adequate answers and one of the solutions was identified in disembedding liberalism. Not surprisingly, the business class, and the conservative parties on both sides of the Atlantic were quick in accepting this paradigmatic shift because for them abandoning the Keynesian paradigm amounted to eliminating a field in which the parties of the Left could be considered to be credible.

But why did the parties of the Left accept this paradigmatic shift? My answer—and this is the third factor—is that after their faith in state intervention in the economy had been shaken by states’ seeming inability to cope with stagflation, the only economic alternative to capitalism, the only experiment in non-capitalist economics—the USSR—failed. The implications of this economic failure were broad. It soon became widely believed, regardless of whether it was true or not, that there was no alternative to market economy, that there was no alternative to market society and that, in the absence of these conditions,

161-187. Consensus over the political business cycle is far from being unanimous. Michael Lewis-Beck recently noted that “the pathbreaking efforts of Nordhaus and Tufte certainly developed political business cycle studies. Nevertheless, their empirical work does no give much support to the idea of a traditional business cycle in these Western democracies. Further, more elaborate country-specific efforts have failed to produce positive results (…). In his careful comparative study of seventeen OECD nations, 1948-1975, Paldam likewise uncovers no evidence for what he call the Nordhaus-Macrae model. Other recent work has reached the same conclusion (…). Keech and Pak…summarize these sentiments well: “we do not believe that political business cycle of the Nordhaus or Tufte type exist as systematic, regular and important phenomenon”. My analysis, which estimates a general political business cycle model for these five countries—Britain, France, Germany, Italy and the United States—come to the same conclusion”. See Michael Lewis-Beck, Economics and Elections. The Major Western Democracies, Ann Arbor, University of Michigan Press, 1988, p. 142.

30 The notion of ‘embedded liberalism’ was introduced by John Gerard Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order”, International Organization, vol. 36, n. 2, 1982. This notion was applied to describe the international economic order of the post World War 2 era. The peculiarity of embedded liberalism is that unlike economic nationalism of the 1930s was multilateral, and unlike old liberalism, it was predicated upon domestic interventionism in the economy—commitment to growth, development and employment. The expression ‘dis-embedding liberalism’ refers to the dismantling of the economic order established at Bretton Woods. On the point, see Mark Blyth, Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century, New York, Cambridge University Press, 2002, pp. 3-16 and pp. 126-201.
there was not much room for the traditional parties of the Left and their identity. In the words of Kitschelt, “pure socialist alternatives (have) lost their political attractiveness”\textsuperscript{31}. The terms of the old class compromise became somewhat anachronistic and the governments of the Left gave up Keynesianism, the commitment to full employment and equality.

The Left came to believe that Keynesianism could work under specific conditions (mass production, Taylorism and territorialization of the economy) and that these conditions had vanished with the liberalization of the markets. Hence, and quite rationally if one believes this account, the parties of the Left gave up policies that could no longer be pursued.\textsuperscript{32}

Regardless of whether the parties and the governments of the Left were unwilling or unable to stick to the Keynesian doctrine and regardless of whether Keynesianism’s inability to cope with stagflation was due to specific historic circumstances or to the fact that Keynesian solutions could no longer work under the new conditions, one outcome was clear: the parties of the Left were no longer the parties of full employment and equality.

As the parties and the governments of the Left became unable/unwilling to fight unemployment and socio-economic inequality, the policy outcomes under the governments of the Left were no longer so significantly different from the policy outcomes of the governments of the Right. The fact that governments’ ideological orientation no longer produced ostensibly different

\textsuperscript{31} Herbert Kitschelt, \textit{The Transformation of Social Democracy}, op. cit., p.31
Outcomes is the reason why an increasing percentage of Western European voters developed the belief that the parties of the Left had become more similar to the parties of the Right, that the parties of the Left were standing for the same policies that the parties of the Right were supporting, that the position of the parties of the Left had moved closer to the position of the parties of the Right, and that for all these reasons it had become very difficult if not impossible to detect any difference between the parties of the Left and those of the Right.

Conclusions

The conclusions suggested by the analyses performed in this paper are relatively clear. Parties’ (and governments’) supply of macroeconomic policies has become increasingly similar as the parties of the Left have abandoned their traditional full-employment and equality stances to become increasingly inflation-averse and thus similar to the parties of the Right. The right-ward movement of the parties of the Left has also contributed to an overall move to the right of European party systems. What is surprising, though, in this right-ward move of the parties of the Left is that it is a self-defeating choice. It is a self-defeating choice because it alienates the Left from those voters for whom unemployment is not just a statistic but is often a personal problem. Second, it is a self-defeating choice because if voters are left with a choice between a Left that is moving right-ward and the Right, they might just stick with the parties of the Right which have more experience and, hence, can more credibly play the role of the Right than the parties of the Left. Third, it is a
self-defeating choice because if the political offer of the Right and the right-ward oriented Left does not satisfy the electorate’s demands, it is more difficult to achieve an equilibrium in which the transaction (vote) can occur between sellers (parties) and buyers (voters). This means that voters might not turn out to vote, might turn out to vote for radical alternatives as in the 2002 Presidential elections in France or both. It is probably more than just a coincidence the fact that the right-ward shift of the Left, the right-ward shift of Western European party systems, the fall in turnout levels and revival of radical parties (mostly of the right) have all occurred in the same time-span. As the parties of the Left become increasingly similar to those of the Right, the system parties (of the Left and the Right) are too similar to each other to provide the voters with clear, and clearly distinguishable alternatives, and hence voters are confronted with the option of either refraining from participating in the electoral process or to support anti-system parties—a solution that undermines the legitimacy of the whole political system. In sum, the right-ward shift of the Left produces socially, electorally and systemically negative consequences.

But there is more than self-defeat in this story. There is some evidence as to why voters perceive that parties are too similar, that there are no clear political alternatives, that the system is neither representative nor terribly democratic and that the patterns of inter-party competition resemble the dynamics of oligopolistic markets — which is why it is entirely appropriate to describe party systems in Advanced industrialized societies as cartel party systems.

34 I discuss the right-wingization of the Left in the previous and in the present chapter. On the falling turnout rates, see Renato Mannheimer and Giacomo Sani, La conquista degli astenuti, Bologna, il Mulino, 2001. On