Do Parties Matter for Economic Outcomes?

A Replication Study of Pettersson-Lidbom (*Journal of the European Economic Association*, 2008)

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Abstract

In an important and much cited study, Pettersson-Lidbom (2008) identifies significant left-wing majority coalition effects on economic outcomes for Swedish local governments, 1974-1994. We first replicate the original study and then extend the original research by applying Pettersson-Lidbom's empirical model using new and more detailed coalition data, compiled from registry books and register data recently made available from Statistics Sweden. The data allows us to test for left party policy outcomes including previously undefined coalitions, such as left minority coalitions and coalitions with local or emerging parties. We find that Pettersson-Lidbom's previous results hold and are even strengthened using the new data and some alternative specifications, but the results are heavily dependent on the definition of left-wing rule. When including left wing minority coalitions and left-wing coalitions including the Green Party, previous significant differences between the left and right are no longer discernable.

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1 Introduction

The importance of political parties with respect to economic outcomes is a central issue in political economy. Where some studies find only weak or no evidence that party control matters (Faust & Irons, 1999; Folke, 2014; Gerber & Hopkins, 2011; Hankins & Hoover, 2019), others identify significant impacts (Besley & Case, 2003; Ferreira & Gyourko, 2009; Freier & Odendahl, 2015; Lee, Moretti, & Butler, 2004). In a notable and much-cited paper, Pettersson-Lidbom (2008) analyzes the extent to which left-wing political party coalitions affect local economic outcomes, using a regression discontinuity research design and detailed data for 290 Swedish local governments, 1974-1994. His aim is to study the average difference in policy outcomes between left-wing and right-wing majorities (Pettersson-Lidbom, 2008). The study finds significant differences between municipalities governed by left- and center-right party coalitions, both as regards employment and spending as well as for variables such as revenue and taxes.

However, a limitation in Pettersson-Lidbom's study is that he does not use data that detail exactly which parties that factually are in power, and he must therefore classify a governing coalition as either left- or right-wing based on municipality party vote shares. By consequence, his data neither allows for an analysis of the effects of left- or right-wing minority governments, nor the effects of coalitions containing any number of local- or emerging parties that lack representation at the national level (and which therefore cannot a priori be ideologically classified). Both these types of coalitions are in his study instead classified as "undefined", making up around 20% of all observations, and in his main model, a dummy variable is used to control for these undefined coalitions. If these types of coalitions are non-randomly distributed, either because they are over-represented among municipalities where the left- and right vote share is close to 50%, or if a certain emerging party consistently sides with either party-bloc, they may well have a disproportionate effect on the outcome and taking them in account may alter previous conclusions.

Our study suggests that this is indeed the case. By using detailed hand-coded data from registry books covering the exact party composition of each governing municipality coalition from 1974-1994, but otherwise using the same empirical estimator and controls as the original study, we avoid previous data limitations and replicate and extend Petterson-Lidbom's important findings. In short, we find support for all his results as regards economic policy outcomes when using his original left-wing coalition definitions, and some of these results are even strengthened. Importantly, however, we show that all estimates are dependent on the chosen definition of left-wing rule. When using a more general and broader definition, i.e., including all minority left-wing coalitions as well as all left-wing coalitions including the Green party (and thereby leaving no coalition undefined), all previously estimated left-wing coalition effects become statistically insignificant. That is, the definition of left-wing coalitions is not a minor coding choice, but one that significantly shapes results; using broader more inclusive classifications (including left-wing minority coalitions and those involving the Green Party) alters the findings.

2 Background, data, and methods

For the research problem at hand, as Pettersson-Lidbom also argues, Swedish municipalities can be regarded as an almost ideal testing ground. The number of Swedish municipalities is large (about 290), elections are held on the same day, and the municipalities all have the same, proportional,

electoral system. All municipalities also have the same tax system, and only direct proportional income taxes are allowed; characteristics which render it significantly easier to isolate causal effects (Lakomaa, 2008; Pettersson-Lidbom, 2008).

A starting point in Petterson-Lidbom's 2008 study is the assumption that local governing coalitions in the vast majority of cases resemble the ones in the national Parliament. As we can show, this is however often not the case. Using our data, we find that during 1974-1994 local parties are represented in 28% of municipalities (not shown), and the emerging Green party in 38% of all elected assemblies. In a small but significant number of cases (a total of 483 municipality year observations) such parties are also included in governing coalitions. As our coalition data enables us to observe which governing coalitions these parties participate in, the data therefore allows us to follow how local or emerging parties "self-select" into either the left- or right-wing party bloc, and we need not make any a priori assumptions as to the ideological preferences of these parties.

Thus, as a rule, we find that the emerging green party side with the other two left parties when taking part in governing coalitions, and that all local parties almost exclusively side with the center-right. This finding allows us to include these local parties and the Green party in our analysis, both when we assign local coalitions as left- or right wing, and when we calculate the left party vote share later used when modelling the outcomes.

Using this approach, and in contrast to Pettersson-Lidbom (2008), we can hereby consider municipalities where either the left- or right wing political bloc governed in coalition with either one or more additional parties (including coalitions other than those that constituted a political bloc at the national level), as well as all municipalities governed by minority coalitions, i.e., coalitions with a combined support of less than 50% of the municipality vote share. Pettersson-Lidbom's original data contain 936 year-specific observations with party control designated as undefined (15.8% of the total sample). In comparison, our data contain no undefined coalitions but 447 additional year observations of left-wing rule (either left-wing minority coalitions or left-wing coalitions including the Green party), with the remaining number of previously undefined coalitions belonging to the right-wing bloc (ruling either in the minority or with a local party). Importantly, these previously undefined left-wing coalitions are not randomly distributed. While they constitute around 7.5% of all coalition years in the full sample, they correspond to about 27.5% of the coalitions which are in the range of +/- 2 percentage points from the 50% vote share threshold (see Table 1 below).

Table 1: Percentage of coalitions by type, in PPL (2008) and in the current replication

Coalition Type	Total Sample (%)	Close to Cut-off (%)	Total N	N (+/- 50 percent left vote share)
Undefined coalitions (in PPL, 2008)	15.8%	33.3%	5913	276
Left + Green or Left Minority	7.5%	27.5%	5913	222

Notes: There is a slight difference in the total number of coalitions close to the cut-off in PPL (2008) and in the current replication. Whereas there are 828 coalitions +/- 50 percent left vote share in Pettersson-Lidbom (2008), there are 810 using our data (not shown). This is likely due to different data sources. However, the overall picture is clear that a large share of the previously undefined coalitions close to the cut-off of 50 percent left vote share constitutes left-wing coalitions, that rule either with the Green party or in the minority.

As for our remaining data, all information on spending, taxes and employment as well as municipality characteristics is equivalent to that used by Pettersson-Lidbom (2008), allowing for an exact replication of his study and comparison with his earlier results. This also applies to the model

we use, which is given by

$$Y_{it} = \mu_i + \lambda_t + \pi T_{it} + \sum_{z=1}^{4} \phi \big(Left\ vote\ share\big)_{it}^{z} + \nu_{it} \tag{1}$$

3 Results

In Table 2 below, we highlight the differences between Pettersson-Lidbom's original study and our extended work by first replicating his original findings (column 1) as regards different types of municipal fiscal policy outcomes (rows 1-7), but then subsequently changing the definition of left-party rule used in our estimations (columns 2-4). In column 1, we use all of Pettersson-Lidbom's original data, and the exact same estimator as well as his definition of left majority (i.e., a definition based on only those combinations of the Social democratic- and the left party vote share that exceed 50% of total vote share). Any left- or center-right governing coalitions not exceeding the threshold of 50% vote share are here included in the regressions as "undefined". In column 2, we substitute the original left majority dummy variable for an equivalent variable based on the same definition of left party rule as in Pettersson-Lidbom's original study, however calculated using our own data on municipality governing coalition composition. As in column 1, any coalition including either the Green party, a local party or a coalition which constitutes a ruling left-wing minority is here categorized as "undefined". In column 3 we then include all factually governing left party coalitions in our definition of left-wing rule (i.e., including the previously undefined), and we therefore have no undefined coalitions. Finally, in column 4, we show results where left-wing rule is defined as in column 3, but we here add dummy variables to control for the specific effects of minority left-wing coalitions (Social Democrats + Left party) and those including the Green party.

In column 1, our results show the exact same coefficient estimates of left party rule as in Pettersson-Lidbom's original study. In our replication these coefficient estimates are however associated with (very) slightly lower levels of confidence (our standard errors are larger by a factor of about 0.002). We do not know the cause of this, but it may well be due to a simple matter such as the development of software during the time separating our two studies. In column 2, where we use Pettersson-Lidbom's original definition of left party rule but with left-party rule assignment instead derived using our own coalition data, we now have results which are largely similar; slightly smaller coefficient estimates but standard errors and the level of confidence of the estimates on average as previously. In column 3, in turn, where the definition of left-wing rule includes every possible type of left party coalition (i.e., also including minority left coalitions and those including the Green party), and where no coalitions are left undefined, we get even smaller coefficient estimates and none are significant at ordinary levels of confidence. Finally, in column 4, when we add separate dummies for minority coalitions and those including the Green party to our regressions, we see similar effects of left-wing rule as compared to Pettersson-Lidbom's original outcomes (even somewhat larger coefficient estimates at a higher level of confidence).

So, to summarize, what we find is that Pettersson-Lidbom's original left party estimates are not robust to alternative definitions when considering all factual types of left party coalition rule. In other words, we do not have evidence for a general left-wing party effect, rather the original findings are dependent on controlling for, or "dummying out", the effects of left-party minority coalitions as well as those including the Green party. In fact, doing so renders the left party governing effect even

Table 2: The left party effect on fiscal policies (rows 1–7), using varying left-party coalition definitions and coalition source data (columns 1–4, see notes below). Swedish municipalities, 1974–1994

Fiscal policy variables:	(1)	(2)	(3)	(4)
Log (Total spending per capita)	0.020*	0.020**	0.013	0.032***
	(0.010)	(0.009)	(0.009)	(0.011)
Log (Total spending as a share of income)	0.021**	0.016*	0.011	0.029***
	(0.010)	(0.009)	(0.008)	(0.011)
Log (Current spending per capita)	0.025**	0.022**	0.008	0.029**
	(0.011)	(0.009)	(0.010)	(0.012)
Log (Current spending as a share of inc.)	0.026**	0.018*	0.006	0.026**
	(0.011)	(0.009)	(0.010)	(0.012)
Log (Total revenues per capita)	0.017*	0.022**	0.010	0.031***
	(0.010)	(0.009)	(0.008)	(0.011)
Log (Total revenues as a share of income)	0.018*	0.017**	0.009	0.028***
	(0.009)	(0.009)	(0.008)	(0.011)
Log (Proportional income tax rate)	0.013***	0.006*	0.006	0.009**
	(0.004)	(0.004)	(0.004)	(0.004)
Observations	5,913	5,913	5,913	5,913
Left vote share polynomial	Fourth	Fourth	Fourth	Fourth
Controls	Yes	Yes	Yes	Yes

Notes: Column 1 contains exact replications of Pettersson-Lidbom's (2008) estimates, equation (6), Table 7, column 6, and left party rule is here defined as in the original paper (Social democrats in either majority rule or in coalition with the left party). Column 2 shows estimates using the same coalition definition, except left-wing rule is now determined using our own coalition data rather than using total left party vote share (as in PL, 2008). Column 3 shows results with left-party rule now defined as also including left party minority rule as well as left wing coalitions including the Green party (using our own coalition data, as in column 2). Finally, Column 4 shows estimates using the coalition definitions and data as in column 3, but with two added dummy variables for left party minority rule and left-wing coalitions including the Green party. As in PPL (2008), all models are estimated using OLS. Robust standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Standard errors, clustered at the municipality government's term in office, are within parentheses. All regressions include, but do not report, municipality- and time fixed effects as well as other municipality level controls, all of which are the exact equivalent to the original research.

stronger than in the previous original estimates. This conclusion is also strengthened by the fact that the dummy variable estimates of both these types of coalitions are negative and highly significant (see Appendix A, Table A4). These last results also suggest that the outcome of left party rule hinges on which specific left-wing parties form a governing coalition. If we consider the effect of the total share of left-wing votes and thereby gauge the average effect of all left-wing coalitions, differences between left- and right are no longer discernible, and the outcome is much more in line with the median voter theorem.

Our finding that municipalities governed either by left wing coalitions in the or including the Green party, will have a less of leftist fiscal policy outcomes, as compared to those where the social democratic party and the left party rule with a majority of the seats, is perhaps not too surprising. Somewhat speculatively, a possible explanation for this is that these observations reflect municipalities where the social democrats have governed for a long time but where voters over time have moved to the right (something which is a general trend during the time-span of our analysis). As long as the Social democrats and the left party keep their majority they will likely pursue the same policies as previously, but when this majority is subsequently lost, or they are forced to include the Green party in a ruling coalition, they may of course adopt to this new reality by pursuing less leftist policies.

That the inclusion of these relatively few data points has such a large impact on the overall outcome (column 3) is likely due to the non-randomness in the distribution of these types of coalitions in the data set. Both types of coalitions are very much over-represented in municipalities that are close to the 50% vote share threshold separating the left- and center-right political bloc. The research design employed here, resembling a regression-discontinuity framework, is also very much cantered on what goes on in this span of the left and right vote share, something which also adds weight to these particular coalitions when estimating the outcome.

4 Conclusions

In this paper, we replicate and extend previous findings on the impact of political parties on economic policy using hand-coded data, hitherto not readily available, on the exact party set-up of all governing coalitions in Swedish municipalities, 1974-1994. Our findings i) confirm Pettersson-Lidbom's earlier findings as regards significant differences between left- and right-wing parties when using previous coalition definitions. Such left party coalitions e.g. have higher levels of total spending per capita as well as total revenues as a share of income. As in Pettersson-Lidbom's original study, we also find a higher proportional tax rate when left-wing coalitions are in power. However, ii) these positive effects are wholly dependent on how we define a left-wing coalition – if we broaden our general definition to also include minority left-wing coalitions, and left-wing coalitions including the Green Party, the point estimates decrease by about a third and become statistically insignificant in the alternative specifications.

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