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## The Left or the Right: Old Paradigms and New Governments

### Abstract

Classical paradigms characterize left-oriented governments as being more interventionist in the economy than right-oriented ones. Nevertheless, many factors have influenced economic policy changes in modern parties. The paper first gives a literary review of parties' orientation towards intervention in the economy. Secondly, a comparative analysis of economic policies is done for selected developed economies, combining the governments' left-right composition with trends in their economic freedom. Finally, the paper summarizes main similarities and differences between left and right governments as to economic interventionism. The aim of the paper is to show how different economic policies with regard to market restrictiveness should change traditional perceptions of ideological inclination to economic interventionism. Our findings underscore the need for building a new 'economic ideology' map, as complement to traditional party classifications.

Key words: political parties, market economy, economic freedom, regulation

### Introduction: parties, ideologies and positioning

Political scientists have always been productive in elaborating various classifications of political parties with respect to their ideologies, organization, position towards other political groups, functions, relevance, political strategy, etc. Janda (1993) argued that there are numerous important aspects of political parties and they must include inter alia institutionalization, issue orientation, social support, organizational complexity, centralization, coherence, etc. Researchers usually classify parties along or within a political spectrum, including one or several dimensions in the classifications. As the conventional, linear Left-Right continuum proved to be insufficient, bidimensional and multidimensional classifications have been developed. The Vosem chart exemplifies models with multiple criteria, such as economic liberty, personal liberty, and positive liberty (the Friesian Institute). It

pictures the political map in three dimensions: corporate economics, individual economics, and civil liberty.

In distinguishing the Left-the Right parties, the first axis of the Vosem chart covers cultural issues, fiscal issues present the second axis or the line of division in the top-bottom direction, and the third axis (front-back) divides parties with regard to their attitude towards the regulation of labour relations, free market, intellectual property and political influence of the corporate sector.

Competing with different linear and multidimensional classifications of parties, Faye (1996) developed a much criticized horseshoe theory asserting that the far The Left and the far The Right resemble one another to a great extent and are not the opposing ends of a political spectrum.

Despite different criteria in use, this paper takes the political ideology as the main classification parameter, i.e. parties' goals (allocation of values) and methods (policies to be implemented) as presented in their manifestos. Bobbio (1996) underscored that the Left and the Right are not absolute phenomena but represent a variable map of the political spectrum, relative to the particular cultural and historical contexts of a given time. Nowadays, the Left is defined in antagonism to the Right and vice versa. Similarly to other common/traditional views, it is widely accepted that the left-wing politics care about social inequalities, encompasses political liberalism, intervention in the economy, redistributive policies, etc. The right-wing politics is seen as being less sensitive to social inequalities, much less inclined to economic interventionism and reforms. Laponce emphasized that traditional classification of parties on the Left and the Right had been done on the basis of three tests: '...the attitude toward a monarchy, attitude toward a church, attitude toward the system of free enterprise.' (Laponce 1961, 26) However, all these examples of 'classical' distinctions of political parties increasingly find less and less ground in the contemporary world. The aim of the paper is to show, through a number of carefully selected case studies, how different economic policy aspects with regard to market restrictiveness should change traditional perceptions of ideological inclination to economic interventionism. In other words, it aims at identifying both similar and different attitudes of the Left and the Right towards economic freedom in order to emphasize serious demerits of current ideological maps.

### **The left, the right and the economic policy**

Many decades ago, Downs (1957) laid down a rather straightforward argument about political parties and their economic policies: parties conduct certain economic policies only for the reason of staying in office or regaining office. If one accepts his explanation that ideologies present just verbal images of a 'good society' and main policies to achieve it, it may seem today that the Left and the Right still produce different ideological images but the policies they pursue tend to have more similarities than ever before.

Economic positions of modern parties have been researched and analysed from various aspects but most of the recent work has focused the impact of globalization on party positions. Globalization has affected both the positions and the relation between the Left and the Right. Giddens emphasized that 'globalization is not only, or even primarily an economic phenomenon; and it should not be equated with the emergence of a world system. Globalization is really about the transformation of space and time' (Giddens 1994, 4). Garrett (1998), for example, provided an in-depth analysis of macroeconomic performances of economies with left-wing governments. He advocated a view that social democratic corporatism, i.e. a class compromise within which those with assets welcome redistributive policies while governments denote the primacy of market mechanisms, presents maybe the most appropriate response to challenges of globalization. The leftist redistributive economic policies are seen as beneficial to an internationalized economy.

Haupt (2010) argued that both wings adjust their policies in accordance with the need for more openness. Testing a traditional hypothesis that the left-wing parties would react more strongly to international economic pressures than the right-wing ones, Haupt concluded that differences between the leftist and rightist parties' responses, however, were not statistically significant. A serious limitation of Haupt's research, for the purpose of this paper, is that it focuses parties' policy programs, rather than government policy outputs.

Contrary to beliefs that the corporate sector has overtaken the power from governments in modern market economies, Boix (1998) argued that the ideological foundations of parties in power determine the competitive strategy a country would take. He identified major economic issues related to supply-side economic strategies over which the Left and the Right took significantly different positions: taxes / spending, equality, private savings and private investments, unemployment and inflation. The Left aims at improving the growth and diminishing inequalities through a rise in productivity which can be achieved with investments in labour and capital in the public sector. On the other hand, conservative governments, being reluctant to intervene directly, are more interested in the establishing of a proper system design and incentive schemes to foster private investments. The left-wing parties aim at higher growth in order to reduce inequalities while the right-wing governments seek higher growth per se regardless of its distributive effects. Despite of those differences, Boix concluded that institutional arrangements of a country, as a result of a long historical process, affected the economic policy more significantly than partisan preferences or coalitions.

A recent OECD study on the level of labour and product market restrictiveness (Wöfl et al, 2009) underscores that the ideological foundations of parties in power significantly matter when labour relations are in question, i.e. when the level of labour market interventions is assessed. In a trade-off between equity and efficiency, the left-wing governments attach a higher weight to equity and support labour market reforms. Regarding product markets, it is assessed that the political orientation of government plays a much smaller role.

The role of partisanship in trade openness has been intensively researched in recent literature. Lines of arguments can be arranged in three main groups: a) the Right-wing, conservative parties support free trade while the Left, socialist parties are not inclined to do so, b) the Left endorses more economically open policies than the rightist parties, and c) partisanship makes no or marginal influence on free trade - there are other factors (like interest groups, country's international positions, etc) that affect the choice of trade policy. In support of the first group of arguments, Milner and Judkins (2004) claimed that the left-right ideological positions of government exert significant and predictable impact on the country's trade policy position. According to their research, the right-wing parties are generally more inclined to favour free trade while the leftist parties oppose that. But, it is not only the ideology that shapes trade policy of a country - globalisation and international forces also make significant effects, in addition to the electoral rules and government type:

A party is likely to announce a position more supportive of free trade when it is more the right-wing in ideological location, is more exposed to international trade, operates in a presidential system, faces higher levels of American economic hegemony, has more seats in the last parliament, operates in a country with lower levels of development, and confronts a world of growing globalization. (Milner and Judkins 2004, 113)

Though illustrative in numerous ways, this research had a limited impact on our study because it had been based on parties' manifestos and not the actual, implemented policies and their effects.

From another analytical perspective (Horino 2008), differences in economic policy of a left or a right government seem to primarily reflect the economic profile of the country, i.e. its production-factor endowment. Horino concluded that labour-intensive (abundant) countries were economically more open under the left-wing governments while no significant correlation was found to support the claim that capital-intensive countries were more economically open under the right-wing governments.

With regard to changes in the traditional views on economic policy, vast literature can be found on the dynamics of economic-policy changes of modern parties. There is a wide held opinion that the Left has been gradually shifting from the traditional social democracy towards the right-of-centre policy choices (Nelson and Way 2007). Several reasons might have caused this: changes of the so-called median voter towards the Right, social and economic changes of the country (deindustrialization), and the effects of globalisation. Of a particular importance for this paper, Nelson and Way emphasized the examples of policies of the Left (The Australian Labour Party) that were more neoliberal than those of some right-wing parties. Additionally, they pointed to the rise of new left-wing policies (the Third Way in the UK, the Clinton administration, Schröder's positions in Germany), perceived as compromises between the neoliberal and classical welfare policies. In conclusion, Nelson and Way argued that the probability of the right-ward shift of a left party rose if there was

a narrow ideological gap with its main right-wing competitor, if the country was increasingly moving towards the service economy, if there was a low level of portfolio investments and if there had been a recent record of currency crisis.

Another critical component of any economic policy, central bank independence, has also been a basis to compare policy attitudes of modern Left and Right. Internationally accepted norms of 'good monetary conduct', relying primarily on central bank independence, have been for a long time assessed as traditionally integral to liberal economic practices preferred by the right-wing governments. Nevertheless, recent studies (Davis 2007) underscore a trend of the left governments being more and more inclined to accept central bank independence, although this may seem as a disaffirmation of certain leftist ideological principles. Davis concluded that the Left and the Right were increasingly moving toward a consensus with regard to spending. Our analysis of the selected countries also indicates less and less differences in this respect.

Regarding the methodology used in this research, we followed a model similar to the one deployed by Benoit and Laver (2006), except for the dimensionality issue. We focused on 'second-hand' evidence about policy positions, i.e. the evidence supplied by experts in assessing the policies on various economic issues. We intentionally assumed the policy space to be low-dimensional in terms of ideological options (primarily distinguishing the Left, the Centre and the Right) but high-dimensional in terms of assessed policies (distinguishing 10 most important aspects of economic freedom). A priori knowledge of the substance of the key policies was available through vast economic research on the basic elements of state intervention in the (market) economy functioning. Traditionally, on the socio-economic dimension, the leftist and the rightist parties' ideological positions differ on the following issues: 1. Wide governmental ownership versus dominant private ownership in the economy; 2. Strong (intervening) versus weak (supportive) governmental role in economics; 3. Support of / opposition to wealth redistribution, and 4. Expansion of / resistance to governmental social welfare programs (Haupt 2010, 8). Our task was not to evaluate the effectiveness of government policies in different countries, except for the comparison of the real GDP growth. Our task was to estimate governments' positions (and actions) on the specified dimensions of economic freedom and to compare those with the traditional ideological classifications of parties.

Once placed on a political scale, parties can change their ideology moving to the Left, to the Right or to any other of the dimensions previously illustrated. Ideologies represent political reality, make political practices (as expressions of political ideas) and mobilize people for the political action. As Blattberg (2009, 21) explained, "... in the case of those ideologies that can be placed upon [the political spectrum], there is no call for doing so in any permanent way. Because each country claims its own political culture, each may be said to have its own 'home' ideology at a given point in time, and this is something that can not only change but also move along our spectrum".

## Research background

The comparative analysis presented here aims to show that the orientation towards less economic interventionism has yielded similar results regardless of the left-right classification of the governments in power. So, it is not that important any more to assess whether the ruling party is of the Left or the Right in orientation but to what extent its capacity can yield results in terms of economic development and a sustainable competitive position of the national economy on the world scene.

Due to the limitations of this paper, the comparative analysis included eight countries: Denmark, Ireland, Germany, Luxembourg, United Kingdom, United States, Australia and New Zealand - all different in terms of size, level of development, dependence on international economic flows, economic and political tradition, and most importantly as to the level of market regulation restrictiveness (see OECD research noted below). The research covered the period 1995-2007. Two reasons lay behind such a choice: the selected economic index has started in 1995 while 2007 was chosen to conclude a period just before the first signs of current crisis have started to emerge.

Several sources were used to collect data for the three major components of the analysis: political orientation of governments, general assessment of regulation restrictiveness and rankings in terms of economic freedom. Real GDP annual change was used as a control indicator for all countries.

The political classification of the governments, for the purpose of this paper, was based on the research and data compiled by Armingeon and others from the University of Berne (Armingeon et al. 2009). For the purpose of getting a longer-term view of state capacity-building, and bearing in mind that policies from previous governments are still in place and produce effects once administration is changed, the compiled data on the government composition cover the period 1985-2007.

Country	Dominant orientation	Dominance levels (lowest-highest)
<b>Australia</b>	<b>almost equal the Left-the Right</b>	
<b>Ireland</b>	<b>the Right</b>	<b>52-100%</b>
<b>New Zealand</b>	<b>the Left</b>	<b>84-100%</b>
<b>United States</b>	<b>the Right</b>	<b>90-100%</b>
<b>Denmark</b>	<b>the Right</b>	<b>76-100%</b>
<b>United Kingdom</b>	<b>almost equal the Left-the Right</b>	
<b>Luxembourg</b>	<b>centre</b>	<b>50-60%</b>
<b>Germany</b>	<b>centre</b>	<b>68-83%</b>

*Table 1: Dominant political orientation of the governments 1985-2007*

Data regarding a general orientation towards regulating the markets come from the work of Anita Wölfl and others for the OECD countries (Wölfl et al. 2009). This source has been very useful in making the selection of countries, i.e. the composition includes those with a high level of liberalization, medium liberalization and those with significant restrictions still in place. The OECD approach uses the overall Product Market Regulation (PMR) indicator constructed from 18 low-level indicators such as: scope of public enterprises, government involvement in the energy, communications and transport sectors, direct control over business enterprises, price controls, use of command and control regulation, licenses and permits systems, communication and simplification of rules and procedures, and administrative burdens for corporations and sole proprietors.

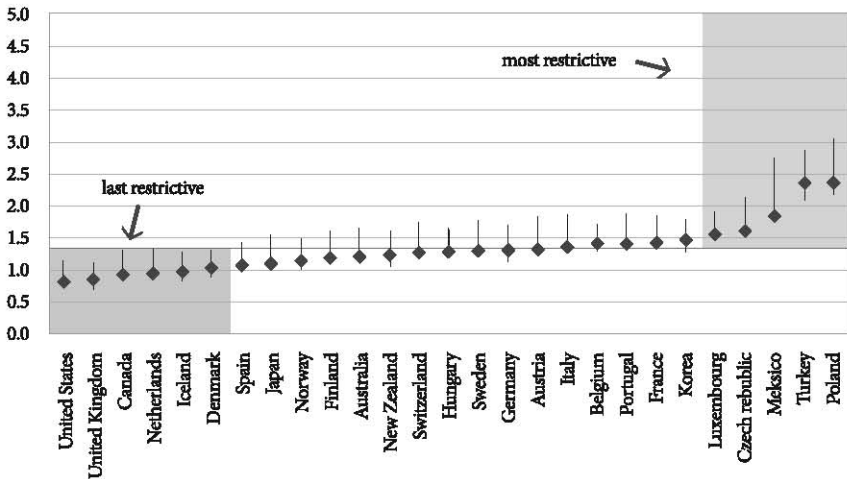


Figure 1: Market Restrictiveness 2008\*

\*Aggregate PMR scores, Index scale of 0-6 from least to most restrictive  
 Source: OECD, Product Market Regulation Database

Finally, the Heritage Index of Economic Freedom is used to assess the results of the governments in terms of economic freedom (Kim et al. 2009). For over a decade, The Wall Street Journal and The Heritage Foundation have tracked the changes of economic freedom around the world, by implementing ten benchmarks that assess the level of freedom from government intervention and the economic success of 183 countries. The ten components of economic freedom are: business freedom (starting/closing businesses, licenses, costs), trade freedom (absence of barriers for exports and imports), fiscal freedom (level of taxes and tax revenue as a percentage of GDP), government spending, monetary freedom (inflation and price controls), investment

freedom, financial freedom (banking security and independence from government), property rights, freedom from corruption and labour freedom (minimal wages and regulation of labour relations). Other institutions, like the World Bank or Freedom House, conduct similar assessments and although criteria for ranking the economies differ in some respects, the general evaluation is based on similar ideas and the countries' ranking do not differ to a significant extent. All of such indices and rankings receive severe criticism<sup>1</sup>, as being subjective, politically-motivated, unsystematic, confusing, and most importantly misleading as they take one developmental dimension (economic opportunities) while disregarding the other two: human development and democracy maintenance. Despite of all shortcomings and in the absence of alternatively developed indices of government intervention, the Heritage Index has proved to be a useful tool in international economic comparisons. Moreover, the purpose of this paper is not to assess the Index credibility but to use it for comparative purposes.

Rank	Country	Score	Real GDP growth*
1.	<b>Hong Kong</b>	90.0	6.4%
2.	<b>Singapore</b>	87.1	7.8%
3.	<b>Australia</b>	82.6	4.4%
4.	<b>Ireland</b>	82.2	6%
5.	<b>New Zealand</b>	82.0	3%
6.	<b>United States</b>	80.7	2%
8.	<b>Denmar k</b>	79.6	1.6%
10.	<b>United Kin gdom</b>	79.0	3%
15.	<b>Luxembour g</b>	75.2	5.2%
25.	<b>German y</b>	70.5	2.5%
26.	<b>Georgia</b>	70.4	12.35%
64.	<b>France</b>	64.2	2.3%
74.	<b>Italy</b>	62.7	1.5%
178.	<b>Zimbabwe</b>	21.4	-4.6%
179.	<b>North Korea</b>	1.0	-2.3%

Table 2: Heritage Index of Economic Freedom 2007, selected countries' ranking and performance

Source: The Heritage Foundation, OECD, CIA Factbook

\*In comparison to 2006

1 For examples of such criticism, see "Laissez Faire Olympics"; Left Business Observer Special Report, March 2005, available at <http://www.leftbusinessobserver.com/FreedomIndex.html>; Abelson, D. E. 2009. *Do Think Tanks Matter? Assessing the Impact of Public Policy Institutes*. Second Edition, Montreal and Kingston: McGill-Queen's University Press; Sachs, J. 2005. *The End of Poverty*. New York: Penguin Books.



## Case studies: individual countries

### Australia

Since 1995, the country's rank has been moving steadily upwards. It has to be mentioned that the year 2000 was a turning point in improving the general business environment in Australia. The right-oriented government had succeeded, after 3 years in power, to yield substantial results in the area of international competitiveness, despite certain ups and downs in the GDP real growth (similar to other countries under review).

The centre-left Australian Labour Party and the centre-right Liberal Party of Australia are the dominant players on the political scene, with the left-wing Australia Greens gaining in importance. Under the Australian Labour Party from 1983 to 1996, the governments pursued active interventionism associated with economic rationalism, reductions in trade tariffs, taxation reforms, removal of centralised wage-fixing, privatisation of large companies and deregulation of the banking system. Today's dominant ALP faction is more economically liberal and less focused on social issues. The Liberal Party of Australia (in opposition since 2007) advocates economic liberalism and the new-right approach (increasingly socially conservative policies and welfare reforms).

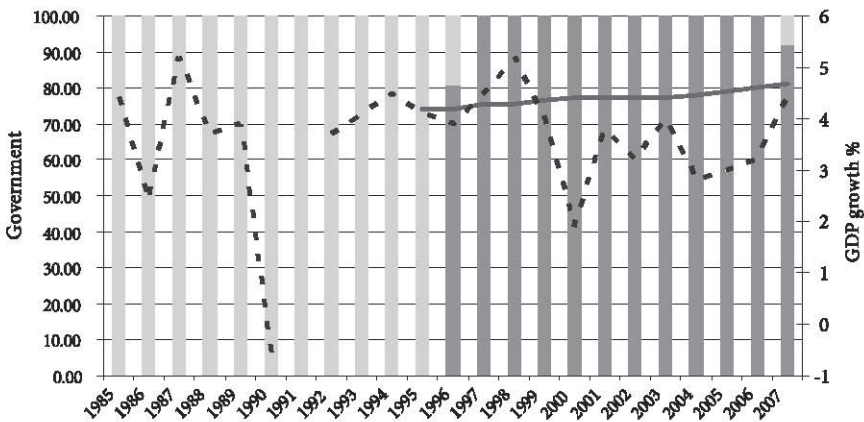
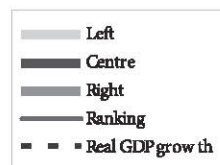


Figure 2: Australia - government orientation, GDP growth and Heritage ranking



In the 2007 Heritage Index, Australia's economic freedom score was 82.6, making its economy the third freest in the world, well above the regional and world averages. Sound macroeconomic policies and well-implemented structural reforms have allowed the Australian economy to weather the financial and economic crisis better than many other advanced economies. Overall, the Australian economy is well equipped in terms of its structural strength. Monetary stability and openness to global commerce continue to facilitate a competitive financial and investment environment based on market principles. A strong rule of law protects property rights, and corruption is perceived as minimal. Both foreign and domestically owned businesses enjoy considerable flexibility under licensing and regulatory schemes. Measures to enhance public finance and maintain long-term fiscal sustainability are focused on achieving better efficiency and effectiveness. Of all components, Australia has been achieving the best ranking regarding property rights and financial freedom - almost double the world average. However, government spending and fiscal freedom are surprisingly below the world average, and that is the area wherein the least improvement has been achieved. That is why, according to Benoit and Laver, the second highest weight the Australian government attaches to the issues of taxes vs. spending, while much less importance is attached to social issues, deregulation, immigration, etc. Since 2000, the Australian government has been particularly active in improving all aspects of business freedom which has resulted in a significant rise of its score by almost one-third. The second major line of improvement has been related to improving freedom from corruption.

## **Ireland**

For a number of years, Ireland has been the best ranked European country in terms of economic freedom, holding the fourth place in the world. The year 2001 seems to be a turning point when, after three years in power, the policies implemented by the right-oriented government have started to provide benefits for the economy. The highest economic growth was recorded in the period 1991-97, during which the government encompassed all these major orientations: the Right, the Left and the Centre. Nevertheless, turbulent economic times at the beginning of this century were difficult to handle by the government and real GDP growth significantly fluctuated (though at a much smaller amplitude than during the 1980s).

Governments in Ireland have traditionally been coalition-based. The current ruling party in the state is Fianna Fáil, a traditionally liberal conservative party founded in 1927, with republican populism as its key orientation. It has formed a government seven times since Ireland gained independence, most recently in the periods 1987-94 and since 1997. Fine Gael is the second largest party, with strong beliefs in the entrepreneurial system and the European future, remaining in essence a Christian democratic party. It participated in the government in the periods 1982-87 and 1994-97. The third largest party is the centre-left Labour Party, linked with the trade union movement, which has been a minor partner in seven coalition governments.

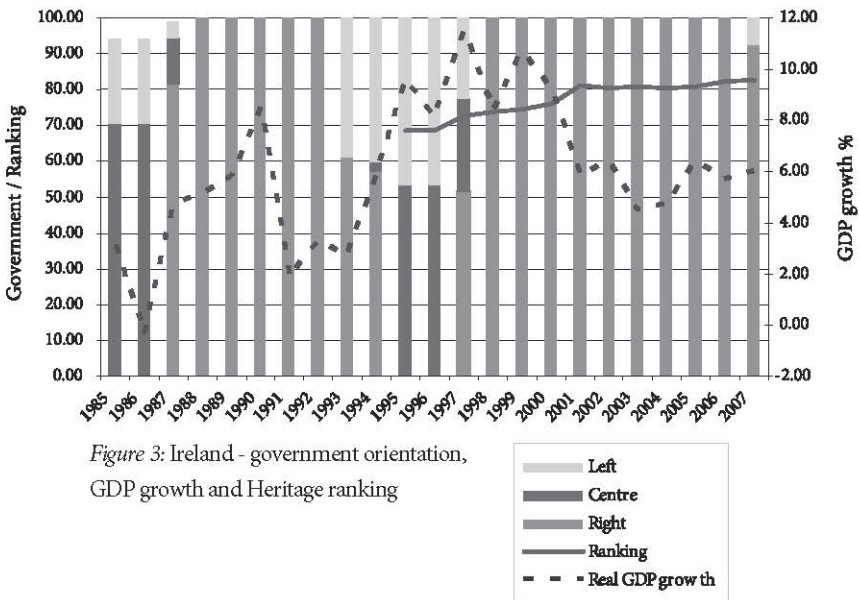


Figure 3: Ireland - government orientation, GDP growth and Heritage ranking

Ireland's modern, service-oriented economy performed extraordinarily well throughout the 1990s and had benefited substantially from its openness and flexibility. However, the financial sector was seriously affected by the global financial turmoil and the economy has suffered sharp economic adjustments since late 2008. Despite the crisis, Ireland's overall levels of economic freedom remain high, sustained by the institutional strengths, such as strong protection of property rights, low level of corruption, efficient business regulation, and competitive tax rates. The highest scores Ireland received regarding property rights, financial freedom and investment freedom - the latter two recording the most significant (almost one-third) improvements during the period. The business freedom parameter remains at the top of the country's rank but it has showed the least improvement since 1995. Similarly to Australia, fiscal freedom and government spending in Ireland have for some time been seriously below the world average. This is the reason why, according to the research of Benoit and Laver, that Ireland's government attaches the highest importance to taxes vs. spending in comparison to all other issues.

### New Zealand

In 2007, New Zealand ranked the fifth in the world regarding its overall economic freedom and has been among the top ten countries for a number of years. Contrary to long-held views, its left-wing government has managed to implement major

deregulation policies for upgrading the business freedom to the highest possible levels (99.9 score out of 100). Though basis for this improvement was built in the period 1998-89, during the right-oriented government, the majority of regulatory improvements were done since the change of the government. Also, major fluctuations (both positive and negative) of the real GDP growth were recorded during the right-wing government (1991-99).

Since 1996, New Zealand has a multi-party system but neither of the two major parties has been able to solely form a government. The two largest, and oldest, parties are the National Party (centre-right conservative) and the Labour Party (centre-left progressive). For a long time, the dominant National Party has been advocating tax and social welfare reductions, as well as the promotion of free trade. The Labour Party describes itself as socially liberal and progressive, in terms of stronger public policy and reforms.

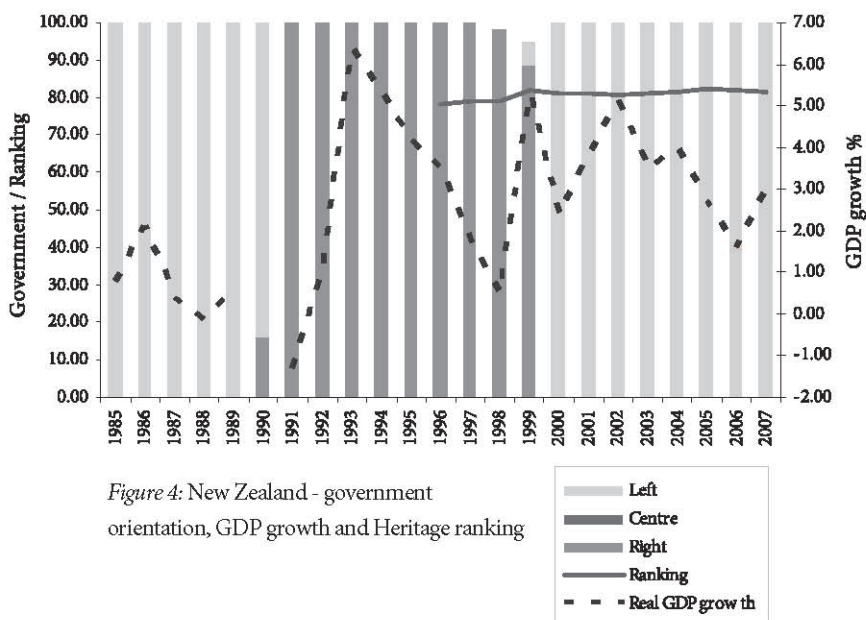


Figure 4: New Zealand - government orientation, GDP growth and Heritage ranking

New Zealand continues to be a global leader in economic freedom, performing well on most of the components measured in the Heritage Index. The economy has an impressive record of market reforms and benefits from its openness to global trade and investment. The country's efficient legal and regulatory environment strongly supports entrepreneurial activity while restrictions on foreign investment apply in only a few sectors. Facilitating the economy's overall competitiveness, the government

has recently cut the corporate tax rate. Inflationary pressures have decreased, with monetary stability intact. New Zealand also boasts an efficient, independent judiciary that protects property rights, and the level of corruption is extraordinarily low. The score for freedom of corruption is the highest (with Denmark) among the countries under review and has kept such a rank since 1995, regardless of the government's orientation. The lowest scores the country has in terms of the government size and fiscal burden, and the two parameters have actually worsened since the left-wing government came to power in 2000.

### United States

In 2007, the overall score for the United States placed it at the sixth position in the world, but has deteriorated since then reflecting notable decreases in financial freedom, monetary freedom, and property rights. The period between 2000 and 2007 was especially fruitful for the economic freedom in the country, probably reflecting also the change from the centre-oriented Democrat government to the Republicans. This shift was also accompanied by a serious decline in the real GDP growth to recover only in 2004. Besides the fact of being the world largest economy, another particular feature of the US is significant for this review. A federal form of government that reserves significant powers to states and localities has encouraged diverse economic policies and strategies. The national government's role in the economy, already expanding under President George W. Bush, has grown sharply under the new administration.

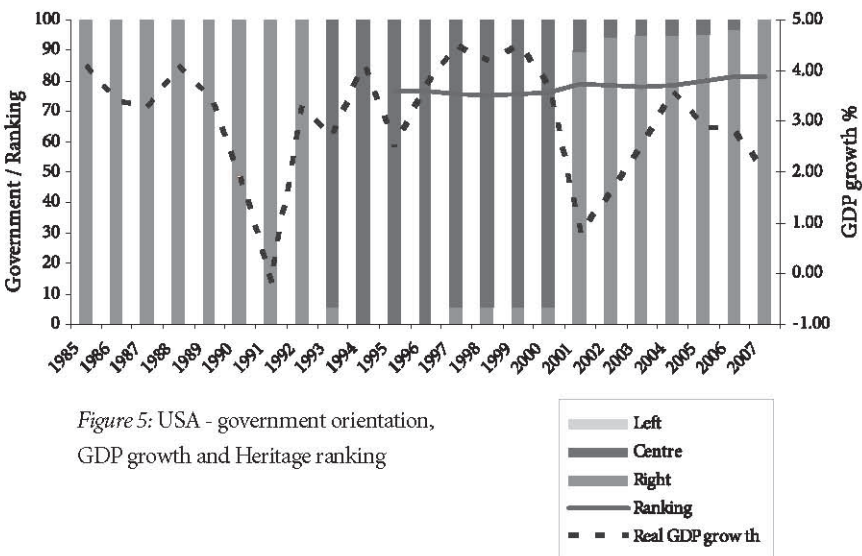


Figure 5: USA - government orientation, GDP growth and Heritage ranking

The Democratic Party and the Republican Party have been the dominant players for more than 150 years. The Democratic Party has consistently positioned itself to the left of the Republican Party, from the aspect of economic as well as social issues, particularly when it comes to the role of government to create opportunities for the citizens (social liberalism). Bearing in mind the peculiarities of the US political scene, the Republican Party is a conservative party that supports economic liberalism, fiscal conservatism (in terms of reducing the national debt, government spending and taxes) and traditional values.

The composition of the US rank is particularly interesting: the highest scores the country has been receiving are for labour and business freedom. The regulation of labour relations has scored better only in Denmark, while the other countries under the review fall well behind (especially Germany and Luxembourg, where labour relations and minimal wages have been strictly defined). Significant improvements (a 15% rise in score) have been recorded only in terms of financial and investment freedom, though the improvements could not be compared to those achieved by other countries. As in other countries under review, its fiscal freedom and government spending have the scores below the world average. What has to be pointed out is that among all the reviewed countries, the US has the worst score regarding the freedom from corruption and it has been continuously worsening since 1997.

## **Denmark**

Denmark was the second best ranked European country in the 2007 Heritage Index, slightly improving its score in the period under review. During the left-centre-right coalition government in 1993-96, Denmark recorded the highest rise and also a serious decline of the real GDP. However, this decline was still of a lesser degree compared to the decline during the left-right coalition (2000-02). The right-wing government has afterwards managed to revive the growth. The turning point in allowing more business freedom was the year of 2003 when Denmark achieved the highest possible score of 100 in the category, unmatched by any other country under review. Also, that was the year during which the financial freedom seriously advanced.

Coalition-based governments have been a political reality in Denmark since 1982, with two dominant parties of equal strength today: Venstre - Denmark's Liberal Party and the left-wing Social Democrats. Venstre is the largest party in Denmark, supporting free-market and conservative policies. It had formed coalitions also with the Conservative People's Party and the Danish Social Liberal Party. The Social Democrats' government through the 1990s and continuing in the 21st century implemented a critical income redistribution policy, widened public services and improved infrastructure. During the period, they received support from the Socialist People's Party (democratic socialism and anti-European orientation) and the Red-Green Alliance (anti-capitalism, Euro-scepticism). Due to the rising debt, however, Social Democrats lost power in 2001 and the right-wing politics took over.

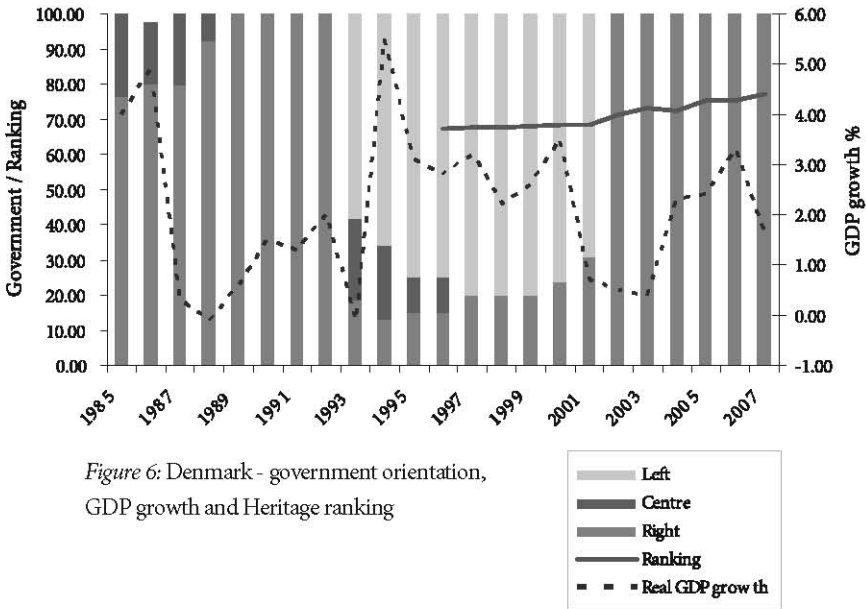


Figure 6: Denmark - government orientation, GDP growth and Heritage ranking

Denmark's modern and competitive economy has been performing well on many of the 10 economic freedoms, particularly related to enhancing entrepreneurship and macroeconomic stability, together with a strong tradition of openness to global trade and investment, as well as transparent and efficient regulation. Business freedom in Denmark has, as in the case of New Zealand, received the highest score (99.9), as well as the labour freedom which in 2008 received the score of 100. Two significant weaknesses continue to hold down Denmark's overall economic freedom. Despite a gradual decline over the past years, government spending remains over 50% of the GDP. While the corporate tax rate is moderate, personal income taxes are very high, and the overall tax burden is significant. For that reason, the parameters of fiscal freedom and especially government size have been extremely low - seriously below the majority of the developing countries (e.g. the score for Guyana was 26 while the one for Denmark was 20.4).

### United Kingdom

The 2007 Heritage Index placed the United Kingdom at the 10th place and the overall ranking of the country has remained more or less unchanged for a number of years. Following the market reforms instituted by Margaret Thatcher in the 1980s, the country experienced steady economic growth, outpacing other large European Union economies. Since the left-wing party came to power in 1998, the fluctuations of real GDP have been smaller but the overall level is much lower than the peak

achieved under the right-wing government in 1988. It has to be noted that since 1995, business freedom has declined from a score of 100 to 91.2 in 2007 but trade freedom has improved to a similar degree. In addition, investment freedom recorded a significant rise during the left-wing government in 2005. However, the government's size and spending have grown significantly under successive Labour governments, damaging the UK's competitive edge.

As in the whole post-war period, the last decades of the twentieth century saw Labour governments alternating with Conservative governments. The Labour Party (centre-left) has undergone significant transformations since its foundations in 1900. Today, it strongly supports social democracy, i.e. public ownership, government intervention, income redistribution, but also certain postulates of neoliberalism. A 'Third Way' approach was introduced by Tony Blair, as a centrist compromise between free market capitalism and democratic socialism. On the other hand, the Conservative Party supports liberal and traditionally conservative values, as well as the national unity (one-nation-conservatism) and maximization of individual liberties. For most of the 1980s and the 1990s, Conservative governments (centre-right), pursued policies of extensive privatization, anti-trade-unionism and control of the money supply.

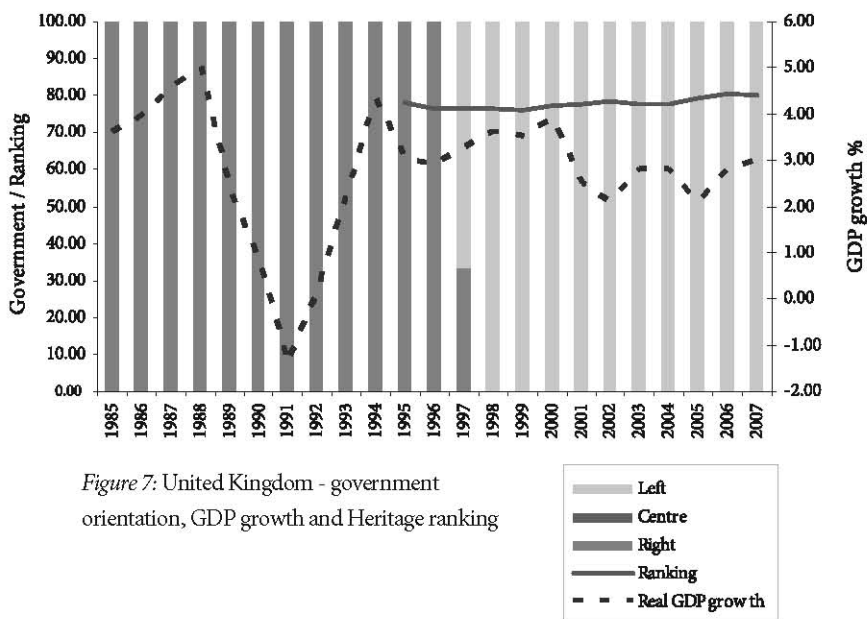


Figure 7: United Kingdom - government orientation, GDP growth and Heritage ranking

In comparison to the rest of the world, it is surprising that the UK has recorded a decline of monetary freedom (particularly after 2007) resulting in its score being



just above the world average. This finding may probably be more strongly linked to the current crisis and the high dependence of the UK on international financial flows than to a major change in government major orientation. In terms of fiscal freedom, there has been no improvement regardless of the change in government.

## Luxembourg

Luxembourg, one of the leading global financial centres and a sophisticated service-dominated economy, has long benefited from a favourable climate for entrepreneurial activity and high levels of openness and flexibility. In 2007, the country was ranked 15th in terms of general economic freedom which had been deteriorating since 2001. Actually, the highest scores the country received was during the period of the right-centre coalition in 1999-2004. The scores were considerably higher than those in the previous and successive periods (the left-centre coalition). Regarding the fluctuations of the real GDP, there were no significant differences to the composition of the government in the research period.

During the last decades, the Christian Social People's Party (CSV) has usually formed coalition governments, most often with the Luxembourg Socialist Workers' Party (1984-1999) and with the centre-oriented, liberal Democratic Party (1999-2004). CSV is a Christian-democratic and conservative party but with a strong pro-European orientation.

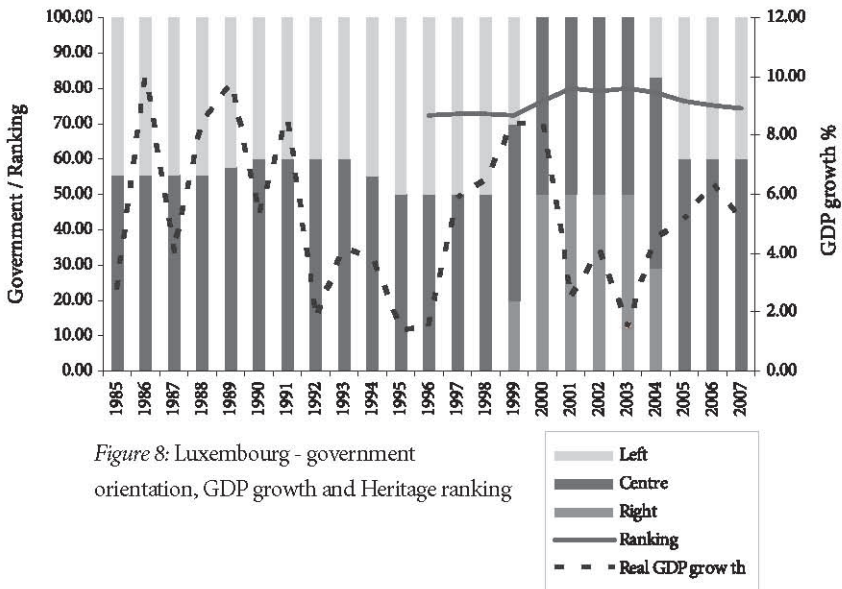


Figure 8: Luxembourg - government orientation, GDP growth and Heritage ranking

Similarly to other countries under review, the best scores Luxembourg achieved were in the areas of property rights and investment freedom, the latter showing the second highest increase over time. The business freedom score declined almost 11% since 1996. The areas with the worst performance are in labour freedom, government size and fiscal freedom though the last two have shown significant improvements in the period 2000-03 (the right-centre coalition). Personal tax rates remained high, although the corporate rate was relatively low. Government expenditures, while lower than in some other European Union countries, accounted for almost 40% of the GDP.

## Germany

In the 2007 Heritage Index Germany was ranked 25th and its position remained almost the same during the whole period under review. Regardless of changes in the composition of government, the level of economic freedom did not change significantly. This does not stand for the fluctuations of real GDP growth which had been much higher (both positive and negative) during the periods of the right-centre coalition up to 1998. What has to be noted is that apart from the decline in 1993, the level of GDP growth was significantly lower in the period of the left-oriented government from 1999-2005. The turning point for business freedom in Germany was the year 2006 when the score rose almost 13% and all other parameters recorded an increase. One of the reasons for that was certainly the success of conservative Angela Merkel in 2006, but the need to form a wide coalition (including Social Democrats) may have seriously limited the possibilities for structural reforms to be carried out.

The main political actors in Germany are the Social Democratic Party (SPD) and the Christian Democratic Union (CDU), with its sister party, the Christian Social Union (CSU) in the same parliamentary group, also known as (CDU/CSU). The centre-right CDU supports political Protestantism, as well as neoliberalism, fiscal conservatism and national conservatism (traditional social and ethical views), along with a strong advocacy of the social market economy. The centre-left Social Democratic Party is the oldest party in Germany and was in a grand coalition with the CDU/CSU from 2005 to 2009. Its main political platform includes the transformation of capitalism, the Third Way approach, improvement in social ownership and a coordinated social market economy. The values of freedom and social justice are of the highest importance.

As in many other European social democracies, Germany recorded a very low score on government size - of all the countries under review, a lower score in this area was recorded only in Denmark, another welfare state. Government spending and fiscal freedom scores are well below the world average. The downward trend in government spending since 2003 is likely to be reversed in light of the global recession. Among the countries under review, the German government attaches by far the

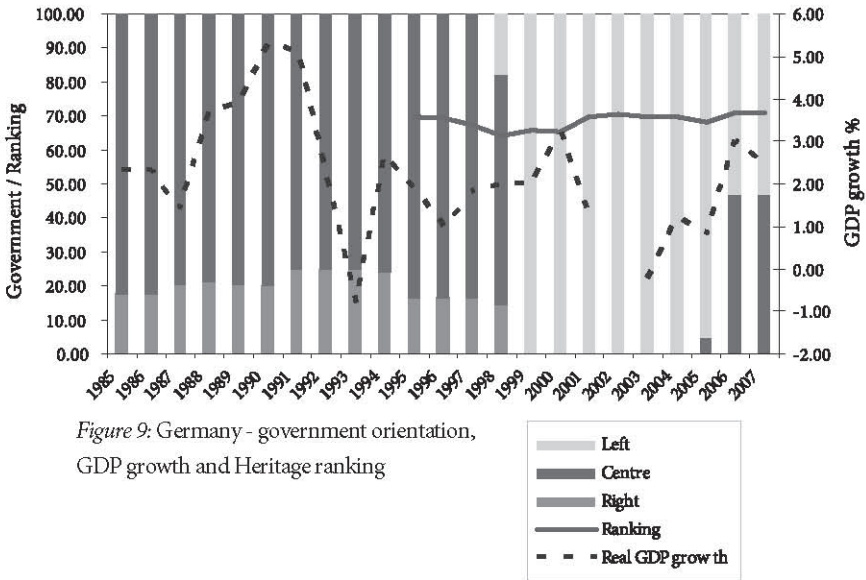


Figure 9: Germany - government orientation, GDP growth and Heritage ranking

highest importance to the issue of taxes vs. spending (Benoit and Laver), surpassing the issues of EU collective security, decentralisation, etc. Investment freedom recorded high scores only in the period 2001–07 and has deteriorated afterwards. The most striking feature is definitely an extremely low level of labour freedom, in line with traditional conservative orientations, which has further declined since the change of government in 2006. Such a low score in this area is comparable only to Luxembourg with a similar left–centre government orientation. Finally, of all the countries under review, Germany has the lowest score in terms of financial freedom and it remained almost unchanged regardless of the changes in government.

## Conclusion

Although with a rather limited sample, this review first aimed at presenting the evolution of government attitudes and policies towards interventions in the economy, in the period 1995–2007. Secondly, on the basis of this comparison, it aimed at contrasting the governments’ ‘official’ classification (as to its distance from the centre) with the actual policy outputs in the domain of free enterprise. Finally, it aimed at identifying both similar and different attitudes of the Left and the Right towards economic freedom. The sample included developed market economies that differ in all significant economic and political aspects. For the period 1985–2007, two countries (Australia and the United Kingdom) had both left and right governments for almost equal periods. Ireland, the United States and Denmark had predominantly right-oriented parties in power, while Luxembourg and

Germany opted for centre-placed governments. Only New Zealand had, in the period under review, predominantly left-wing parties forming the government. According to the latest OECD data, the United States, United Kingdom and Denmark had the least restrictive markets; Germany's market was in the category of moderate restrictiveness, while Luxembourg was assessed as having the most restrictive market. According to the Heritage Index of Economic Freedom 2007, all countries, apart from Luxembourg and Germany, were included in the top ten countries, corresponding broadly to the OECD findings. The best ranked, Australia and Ireland, also recorded significantly higher real GDP growth (apart from Luxembourg) than the rest.

Of all the countries, Ireland and Australia have recorded the most notable rise in economic freedom during the reviewed period, while Germany and the United Kingdom remained more or less at the same position, regardless of the change in government.

Though this research unveiled many differences, there are certain similarities which, bearing in mind contrasting governments' composition and predominant orientation (left-centre-right), might be of particular importance. All countries have recorded the highest scores for the basic market-economy categories, i.e. property rights and financial freedom (though the latter slightly fluctuated across countries and time). General orientations and policies might have varied according to the local environments and global economic climate of the day, but market fundamentals have never been questioned - at least from those two aspects.

Another striking similarity among the countries (apart from the left-centre coalition in Luxembourg) is that since the beginning of 2005, all governments have pursued policies of further trade liberalization thus grasping the benefits of relatively favourable economic conditions on the world scale.

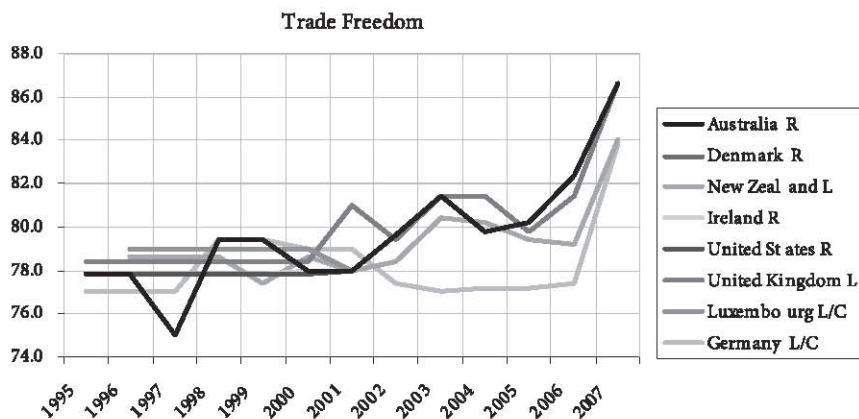


Figure 10: Convergence of trade policies (Heritage Index)

Convincing similarities could also be found when governmental spending and fiscal burden were assessed. If total governmental spending (all levels of government) is compared to GDP, the majority of countries under review (apart from Germany and particularly Denmark) had recorded medium-range scores that improved slightly in the period 1999 to 2002. With the noted exceptions, the right-oriented governments outpaced the Left ones from this aspect.

Regarding fiscal freedom (personal income and corporate taxes, as well as tax revenue as a percentage of GDP), all countries (except for Denmark) had managed to slightly alleviate the burden in 2004-07 despite of the very different starting points.

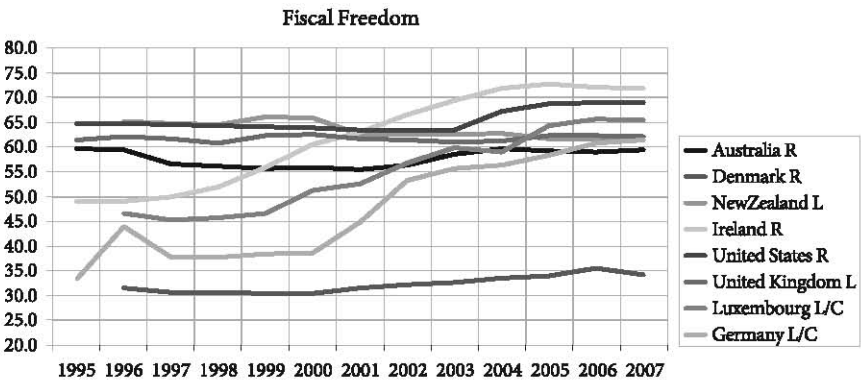


Figure 11: Convergence of fiscal policies (Heritage Index)

Except for the left-centre coalitions in Germany and Luxembourg, the year 2005 saw a general rise in business freedom and support for entrepreneurial efforts. This was manifested in cutting 'red tape', reducing administrative costs, etc. Contrary to long-held beliefs that left-wing parties generally pursue more interventionist policies, New Zealand's left-oriented governments (since 2000) managed to raise the country's rank in business freedom to the ultimate level of 99.9 out of 100.

As to the functioning of labour market fundamentals (minimum wage, wage-fixing system, etc), the majority of countries, again except for Germany and Luxembourg, had relaxed regulations and kept relatively high scores during the whole period. Again, New Zealand was far above the traditionally right-wing governments of Australia and Ireland - the latter being at the same score level with the left government in the UK.

Concerning investment freedom (national treatment, burdensome bureaucracy, real-estate purchase or multiple-sector investment restricted, foreign-exchange of

capital controls), the right-oriented governments (the US, Denmark, Australia) scored surprisingly worse than the left-wing governments (New Zealand and the UK) and the left-centre coalitions. The period between 1999 and 2001 was the turning point for a significant rise of investment freedom in Germany and Luxembourg but again with the different political underlying: in 2000 Luxembourg got a right-centre coalition, while in 1999 Germany elected a left-oriented government which in coalition with the centre remained during the rest of the research period.

Regarding the freedom from corruption (based primarily on the Transparency International's Corruption Perception Index CPI), the year 1996 was a critical period: a rise of perceived corruption was recorded for the majority of governments, most notably for the right-oriented governments of the US and Ireland (14% and almost 50%, respectively). Only New Zealand and Denmark were perceived as countries wherein the danger of corruption had been declining, the latter having recorded the highest scores during the left-right coalition in 1997-2002.

Traditional distinctions between the parties regarding their basic stances towards the economic sphere have for a long time included many presumptions. The Left has been seen to favour price control, regulation against monopolies, minimum wage fixing and substantial state ownership. The Right has been perceived as opposing wide government regulation of business, giving less support to labour unions, reforms and changes, while supporting free trade (in contradiction with favouring economic nationalism) and the idea of equality of opportunities as opposed to equality of outcome. When all data series are compared in the various components of economic freedom, changes of a government's primary orientation seem of the least importance for investment freedom, labour freedom and trade freedom. On the other hand, the changing orientation of the ruling structure seems to make more impact on particular policies related to business freedom, fiscal freedom and government spending. However, in general, the data series do not reflect differences that could be expected on the basis of the ideological varieties among the governments - Liberals, Democrats, labour and workers' parties, Christian-democrats, Republicans, Conservatives, Third Way, centre, etc.

Towards the end of the research period, it became clear that global financial flows are starting to endanger economic prosperity. Economic imperatives for all governments have become so dominant that traditional classifications of parties are becoming blurred, regardless of the spatial language used by researchers or parties themselves.

If parties want to implement the policies upon which they campaign and to provide over re-electable macroeconomic outcomes, then the constraints the global economy imposes on the Keynesian welfare state should also force the Left parties to become more moderate (Nelson and Way, 13). A similar way of thinking could be implemented when the future of the contemporary Right is speculated about. The pressures from global economic flows might influence reconsideration of the

arm's length policies and the 'natural' outcomes of competition, both domestically and internationally.

With the advent of the world crisis, numerous intergovernmental fora have intensified their plans for a multitude of joint actions, involving governments with various orientations. The level of success in setting up / implementing global economic or financial standards will point to the future (un)importance of ideological differences in modern market economies. It will also point out which new criteria, if any, will have to be developed in order to draw new spatial maps of contemporary politics. Having in mind the existence of various classification schemes it is difficult to envisage which new factors will improve the exactness of positioning on the political spectrum. One of the options for future research may be to exclude certain aspects of economic policy that make no difference any more or economic parameters all together from criteria for party classification. Considering an ever increasing dominance of economic outputs for the society as a whole, this option is highly unlikely. Another option, certainly more academically justifiable, may be in developing a parallel, 'economic ideology' spatial map, which should serve as a complement to the existing multidimensional maps of political ideologies. This scenario would require careful and general re-examination of economic-freedom criteria and differentiate governments as to the level of a country's development, thus eliminating the danger of applying the same criteria to different development levels and modes. Furthermore, this scenario would probably need to leave out basic building blocks of market economy (e.g. trade openness, investment and financial freedom, property rights) and attach more weight to fundamental macroeconomic policies (e.g. cost-efficiency of government, its redistributive effects on market efficiency, inflation control, market openness, etc.).

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