

**Dissonance in fiscal policy: A systematic analysis of the congruence between
speech and action in four Canadian provinces, 1970-2004 ¹**

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Paper presented at the annual conference of the

European Public Choice Society

Jena, Germany, 27-30 March 2008

Abstract: The objective of this paper is to explore the relationship between speech and action in the budgetary process of provincial governments in Canada. I ask the following question: does the fiscal conservatism (liberalism) expressed by politicians in their policy speeches correspond to the fiscal discipline (indiscipline) they manifest when they improve (deteriorate) their budget balance? In other words, is there policy consonance or dissonance in the fiscal policy of the governments of Alberta, British Columbia, Ontario and Québec and under which conditions dissonance is useful for the general welfare? I proceed in three steps. First, I review the literature on the relationship between speech and action in the policy process. Second, I propose a conceptualisation of the relationship between speech and action. Based on an analysis of power relationships in the policy process, this conceptualisation tries to identify the conditions of a benevolent dissonance in fiscal policy. Third, I propose an empirical test of the model measuring fiscal discipline in action and fiscal conservatism in speeches and showing that benevolence follows economic, electoral, and partisan cycles.

Introduction

There seems to be a deep suspicion vis-à-vis politicians and bureaucrats in democratic societies. Citizens find it hard to give credence to what their political elites tell them. This suspicion is such that many observers do not hesitate to speak of a crisis of democracy. If we are to solve this crisis, we need to understand the relationship between speech and action in the policy process. One approach is to demand transparency, that is, a strict correspondence between speech and action, what I call here «policy consonance». According to this approach, politicians should tell what they do and do what they say. Yet there are situations when transparency thus conceived does more harm than good and where dissonance seem to be preferable, as Albert Breton and his colleagues show in a recent book (Breton et al. 2007). This is why I propose here a more balanced approach seeking to identify the conditions under which policy dissonance seems to be advantageous.

The concept of dissonance was first developed in the social sciences when the social psychologist Leon Festinger (1956, 1962) forged the concept of *cognitive dissonance* to mean an individual's perception of an incompatibility between two conflicting emotions, beliefs, attitudes or behaviours. The concept specifically referred to the individual's discomfort with the situation in which she found herself. My own concept of *policy dissonance* does not have a similar connotation as it relates not to the perception of the policy actor speaking and acting but to the perception of the observer who sees the conflict or the discrepancy between speech and action. This is somewhat like in music where a dissonance is a chord in which one note is perceived by the listener as not «in

harmony» with the others and which calls for a «resolution» which involves moving from the dissonant note to one that is in harmony with the chord being played. Thus policy dissonance is a situation where the policy analyst observes that all the components of a given policy are not congruent or «in harmony» with each other. In the case that I study here, I concentrate on the fiscal policy of provincial governments in Canada, looking at the congruence between words (fiscal conservatism in policy speeches) and deeds (fiscal discipline in the budget balance). To use a musical metaphor, the chord is the fiscal policy followed by governments; the notes forming the chord are, on the one hand, the words pronounced in policy speeches (fiscal conservatism or liberalism) and, on the other hand, the deeds expressed in budget outcomes (fiscal discipline or indiscipline). When the two are congruent, there is policy consonance; when they are not, there is policy dissonance.

The objective of this paper is to explore the relationship between speech and action in the budgetary process of provincial governments in Canada. I ask the following question: does the fiscal conservatism (liberalism) expressed by politicians in their policy speeches correspond to the fiscal discipline (indiscipline) they manifest when they improve (deteriorate) their budget balance? In other words, is there policy consonance or dissonance in the fiscal policy of the governments of Alberta, British Columbia, Ontario and Québec and under which conditions is dissonance conducive to general welfare? I proceed in three steps. First, I review the literature on the relationship between speech and action in the policy process. Second, I propose a conceptualisation of the relationship between speech and action based on an analysis of power relationships in the policy process, which allow me to identify the conditions of a

benevolent dissonance in fiscal policy. Third, I propose an empirical test of the model measuring fiscal discipline in action and fiscal conservatism in speeches and showing that benevolence follows economic, electoral, and partisan cycles.

Policy dissonance: a literature review

Four types of policy dissonance have been studied in the literature on economic policy: forecasting errors of government revenues and expenditures, time inconsistency, electoral pledges, and the partisan hypothesis.

There is policy dissonance when one finds a sensible difference between what a government announces as its future revenues and expenditures and what it actually realises. In their analyses of forecast errors (errors in forecasting government revenues and spending in the budget), researchers have tried to separate uncertainty effects (errors due to unexpected events) from strategy effects (systematically biased forecasting made, for example, by a minister of Finance in order to mislead his greedy colleagues by underestimating revenues or overestimating spending). Most of these studies focused on the United States (Feenberg, Gentry, Gilroy & Rosen 1989; Mocan et Azad 1995; Auerbach 1999; Rider 2002; Campbell et Ghysels 1995) but some are on Canada. For example, while comparing budgetary forecasting announced in the budget speech to the actual budget outcome published in the public accounts, André Bernard (1992: 317-319) shows that, over the period going from 1897 to 1961, the Quebec government underestimated its revenues by 12% on average and its spending by 29%. In this case, the dissonance reached an underestimation of 40% of revenues in 1921-22 and of 64% of spending in 1924-25. Bernard summarised his results thus: «Frequent in

times past, forecasting errors do not exist nowadays [...] Thus, since 1960, governments have respected their spending provisions while correctly forecasting their revenues within a very small margin of error» (1992: 316, 328). In their study of forecasting errors made by the Canadian federal government, David and Ghysels assessed that the average under-estimation over the 1958-1987 period was 0.74% for revenues and 1.88% for expenditures, the error reaching 12.57% for revenues and 15.68% for spending in 1975-76 (David et Ghysels 1989 : 321). Their econometric analysis shows that the underestimation of revenues is negatively related to unemployment and inflation, and positively related to interest rates and to the percentage of seats in the House of Commons occupied by the governmental party. Underestimations of spending are negatively related to interest rates while positively related to inflation and the proximity of elections. In a more recent article, Bryan Campbell and Eric Ghysels find that revenues forecasting is biased only for income tax revenue over the 1975-92 period: they are overestimated. The authors conclude thus: «There is little reason to be concerned with the forecast performance of the Department of Finance» (Campbell & Ghisels 1997: 575). I found no replication of this research for the most recent period when the Canadian government repeatedly underestimated its budget balance by billions of dollars.

Time inconsistency is another type of policy dissonance. It has been studied exclusively by economists. Here, one considers a decision-maker who chooses a policy according to the expectations of economic agents. For example, in order to stimulate investments in a given sector of the economy, a decision maker may announce a tax reduction on returns from investments in that sector. He is therefore ready to assume a loss of

revenue in order to reach his objective. The investor, anticipating increased revenues, decides to concentrate her capital in the targeted sector. The policy is a success. When time comes to tax the revenues drawn from these investments, it is not optimal anymore for the decision maker to apply the announced policy as the wanted effects have already been achieved. The optimal policy is time inconsistent. There is dissonance between the discourse at the adoption stage (policy announcement) and the action at the implementation stage. Is this a problem? Crettez and Michel (2001) quote the contradictory results of two studies on this issue. On the one hand, Oudiz and Sachs (1984) conclude that, in the realm of the international coordination of economic policies, there is not much discrepancy between the outcomes of the time consistent and the optimal policies. On the other hand, Cohen and Michel (1987) find the opposite in the realm of unemployment. But if time inconsistency is a problem, how can it be solved? Through a commitment on the part of the government to follow a consistent policy and the construction of the reputation of the decision maker as a «person of his word»; the credibility of the decision maker becomes the credibility of the policy (Backus & Driffill 1985a ; 1985b). An alternative solution is the adoption of permanent rules – like a constitutional rule, following the Bundesbank model – which serve as substitutes for a policy that a decision maker would continually adjust to changing conditions (Skydland & Prescott 1977).

A third type of policy dissonance one finds in the literature concerns the relationship between partisan speech and party-government action. Two families of works can be identified: the content analysis of party platforms with the impressive contribution of the *Comparative Manifesto Project* (CMP) (Klingerman, Hofferbert & Budge 1994; Budge et

al. 2001) which has coded «2347 party manifestos issued by 632 different parties in 52 nations over the postwar era» (Laver et al. 2003: 311), and the numerous empirical tests of the partisan cycle hypothesis.

The CMP has raised two main issues about the relationship between speech and action. The first is the capacity of the content of electoral platforms – coded on a left-right scale – to predict which parties will eventually enter a government coalition. The results are ambiguous as they show that several different coalitions can emerge from a given distribution of political parties in the policy space. However, they show that parties that are closer to each other in terms of the content of their speeches have more chance of forming a coalition and that the party that includes the position of the median voter has more chance of being part of the coalition. The second issue pertains to government activity. The CMP shows that in most countries there is a link between the electoral platform of a party and the policies adopted by that party when in government. This is true also for parties forming the opposition. This result seems to support the interpretation that electoral platforms contribute to set the agenda for the government more than they constitute a mandate for the winning party to implement its program (Budget & Hofferbert 1996). Pétry reached similar conclusions for federal parties Canada (Pétry 1988, 1995) as well as provincial parties in Québec (Pétry 2002, 2006; Pétry & Collette 2006).

Research on the partisan cycle hypothesis also pertains to this third type of policy dissonance. These studies typically measure the direction and the strength of the relationship between the ideological orientation of governments – which essentially is a

measure of discourse – and their action, measured most of the time through public spending. This huge literature has been the object of a meta-analysis which concluded that 71% of the 693 statistical tests published on this relationship between 1976 and 1997 do not reject the null hypothesis. In other words, most of the tests disconfirm the partisan cycle hypothesis thus affirming that dissonance is dominant (Imbeau, Pétry & Lamari 2001). The meta-analysis further shows that support for the partisan hypothesis varies with the sector of government intervention (it is higher in total and social spending), the period under study (it is higher after 1973), and the method used (it is higher in multivariate designs). Furthermore, the partisan hypothesis has been almost unanimously disconfirmed when predicting public deficits: governments of the left do not have higher debts or larger deficits than governments of the right. In this case, it has been suggested that budget deficits should not be related to the left-right content of party speeches but to another dimension, fiscal conservatism, that does not correspond to the traditional ideological continuum as parties of the left may be more or less fiscally conservative than parties of the right. Indeed, it has been shown that governments of the right often have larger deficits or higher debts than governments of the left (Imbeau 2004a, 2004b). This idea however has not yet been empirically explored. I address this issue in this paper by measuring fiscal conservatism in the inaugural speeches delivered by provincial premiers in four Canadian provinces and by comparing it to the fiscal discipline manifested in the budget balance. But prior to making this empirical exploration, we need to develop a conceptual framework that will allow us to identify the conditions under which dissonance in fiscal policy is benevolent. I now turn to this task.

Power relations in fiscal policy: A conceptual framework

A general model of power relations in the policy process

I propose here to consider that social relations are power relations among actors who have instrumental or social power. Instrumental power refers to the capacity of acting over events or things, social power relates to the capacity of acting over people, i.e., of influencing other actors. This perspective implies that, in social relations, every actor has power; there is no completely powerless actor. Indeed, one actor tries to influence another for the very reason that the latter has the capacity to make more likely what the former is pursuing. In a more formal manner, let's define instrumental power as the capacity to act over events or things, and social power as the capacity to act over persons, that is to make others do what they would not do otherwise, or to prevent them from doing what they would otherwise². Therefore power is a potential. It may be used or not used. When it is used, we speak of «influence». In the perspective of methodological individualism and bounded rationality, influence consists in utilising one's power so as to modify the incentive structure of another in such a way that she will use her own power to make more likely the occurrence of what one is pursuing. Social power implies instrumental power, but the reverse is not true (Dowding 1991; Imbeau 2007).

One may distinguish three types of power relation according to the resource controlled by the influencer, the method he applies and the incentives produced by its use: political, economic and preceptoral power (see Table 1). An actor exercises political power over another one when he uses force (or threatens to use it) to make the other do what he

would not by himself. The State exercises political power over citizens when it forces them, for example, to transfer a part of their revenue in the form of taxes. The influence is exercised through the threat of sanctions. Fines and prison sentences increase the cost of disobedience and hence discourage it.

Table 1: Characteristics of power relationships

	Type of power relationship		
	Political	Economic	Preceptoral
Resource	Force/coercion	Wealth	Knowledge
Method	Threat/punishment	Exchange	Persuasion
Main impact on incentive structure	Impact on costs	Impact on benefits	Impact on beliefs about costs and benefits

Source: Imbeau 2007

The second type of power, economic power, mainly acts upon the benefits of the relationship as it is based on wealth rather than force. The method then used by the influencer to modify the incentive structure of the influenced is exchange. There is economic power when an action of the influenced is compensated by an action by the influencer, compensation that both actors estimate is equitable. For example, when an investor assesses that the interest rate offered by the government on its obligations is sufficiently high, he accepts to let go of a part of his wealth in exchange for the payment of that interest. The State uses its wealth (its capacity to pay) to make the investor transfer part of his own wealth to the State, something he would not do without compensation. The State exercises economic power over the investor.

Finally there exists a third type of power relation based on the use of knowledge as a resource. This is what Lindblom (1977) called preceptoral power which acts on beliefs

about costs and benefits. An actor uses her preceptoral power when she tries to convince another one to do (or to refrain from doing) what he would not do (or what he would do) otherwise through persuasion. Persuasion ensues from the use of the information that the influencer controls and the rhetoric of which she is capable. It is aimed at modifying the beliefs of the influenced about his costs and his benefits. Here is how it works. The influenced deduces the costs and benefits of his actions from their consequences. When he believes that these consequences are beneficial, he considers them as benefits; when he believes that they are detrimental, he sees them as costs. Persuasion consists in using facts and theories (knowledge) to modify the evaluation an actor makes of the consequences of his actions, therefore modifying his perceived benefits and costs. Thus by convincing him that one of his deep desires – love, security, heaven after death – is linked to a specific action, the influencer may make the influenced do what he would not otherwise. When persuasion reaches its goals, the influenced «rationally» chooses the behaviour wanted by the influencer as the new evaluation he does of his costs and benefits makes this choice more advantageous to him. Without coercion or compensation, the preceptor can make the influenced believe that the behaviour she wants him to adopt is linked to what he intensely desires. The influenced is empowered, believing that he can make his desire happen by doing what the preceptor suggests him to do. One finds manifestations of preceptoral power everywhere: in commercial publicity and religious proselytism, of course, but also in the policy process where the State may play the role of the preceptor (for example, in the principal-agent relationship between electors and elected officials or in political propaganda), or of the influenced (in the form of capture relationships *à la* Stigler or in expert consultations) (Imbeau 2007).

Power relations and budget balance: the use of coercion and exchange

Concerning her budget balance policy, the decision-maker has one essential preoccupation: to make sure that her revenues are sufficient to finance her expenditures. In order to reach that objective, she can mobilise both the coercion and exchange resources of the state. Thus compulsory taxes constrain the tax payer to renounce part of his wealth. The decision-maker uses coercion to force the tax payer to do what he would not by himself. The reason why she uses her social power is because the tax payer has an instrumental power over his wealth: he can obey the law and give some of it to the decision-maker or he can shy away and shelter his wealth into some fiscal paradise or simply abstain from declaring it. This instrumental power of the tax payer to elude from the decision-maker's coercive pressures put a limit to the capacity of the State to tax, a limit that the famous Laffer curve expresses well. The decision-maker's revenue increases with the tax rate up to a point where the tax rate is so high that it makes the tax payer either work less or move his activity away from the taxed economy. Above this threshold any increase in the tax rate (that is, any further use of authority to increase State revenue) will in effect produce a decrease in revenue for, as the net cost of «government» to the tax payer increases – where net cost equals paid taxes minus the benefits from goods and services received – also increases fiscal evasion and, with it, the propensity for the decision-maker to increase coercion, and therefore her own costs, thus further diminishing the benefits she can give the tax payer.

In order to overcome this limit to the growth of her revenue, the decision-maker can use exchange and make another holder of wealth transfer a part of it to the state treasury, the investor. Through borrowing, the decision-maker uses the wealth of the State to make the investor lend some of his wealth in exchange for the payment of a risk premium. When the investor thinks that the interest rate offered by the decision-maker on her bonds is sufficient, he accepts temporarily to forego a part of his wealth, what he would not do otherwise. Thus what the decision-maker cannot get through coercion, she does through exchange.

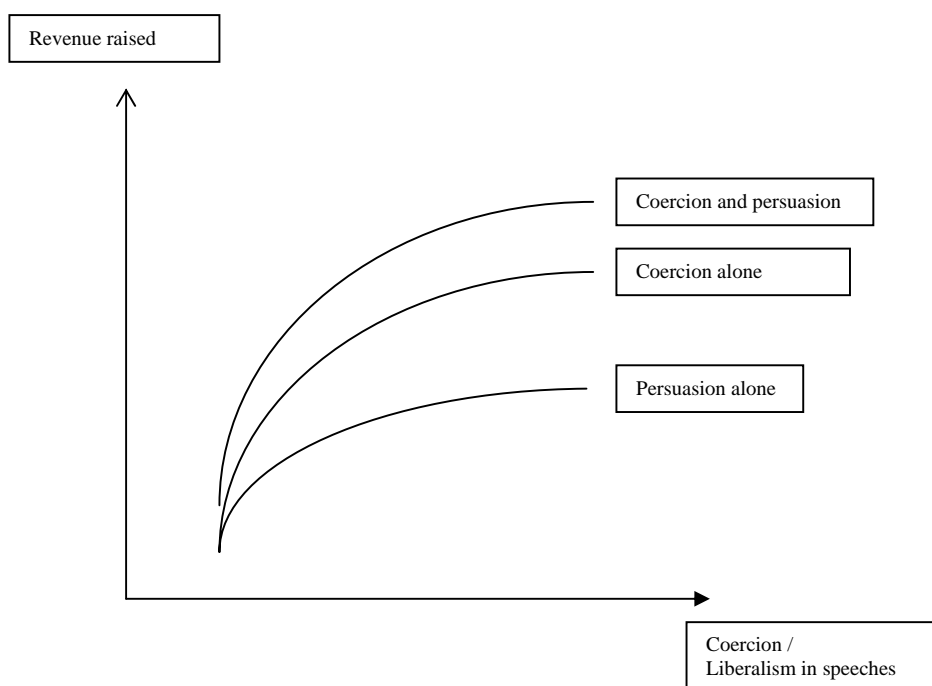
The use of persuasion

We want to compare these two types of action – taxing and borrowing – to a third type of action that uses persuasion as a method of influence, that is, discourse. To this effect, I consider two types of discourse, fiscal liberalism and fiscal conservatism.

Fiscal liberalism emphasizes the development of new programs or the support of existing ones. It aims at persuading the tax payer that the benefits he draws from the taxes he pays are larger than what he would normally tend to believe given his lack of information and his prejudices. Indeed, the utility the tax payer draws from paying taxes depends on two elements: the punishment he avoids in actually paying his taxes and the benefits he enjoys from goods and services provided by the government. Therefore, if the decision-maker wants to make sure that the tax payer obeys her tax laws, she may

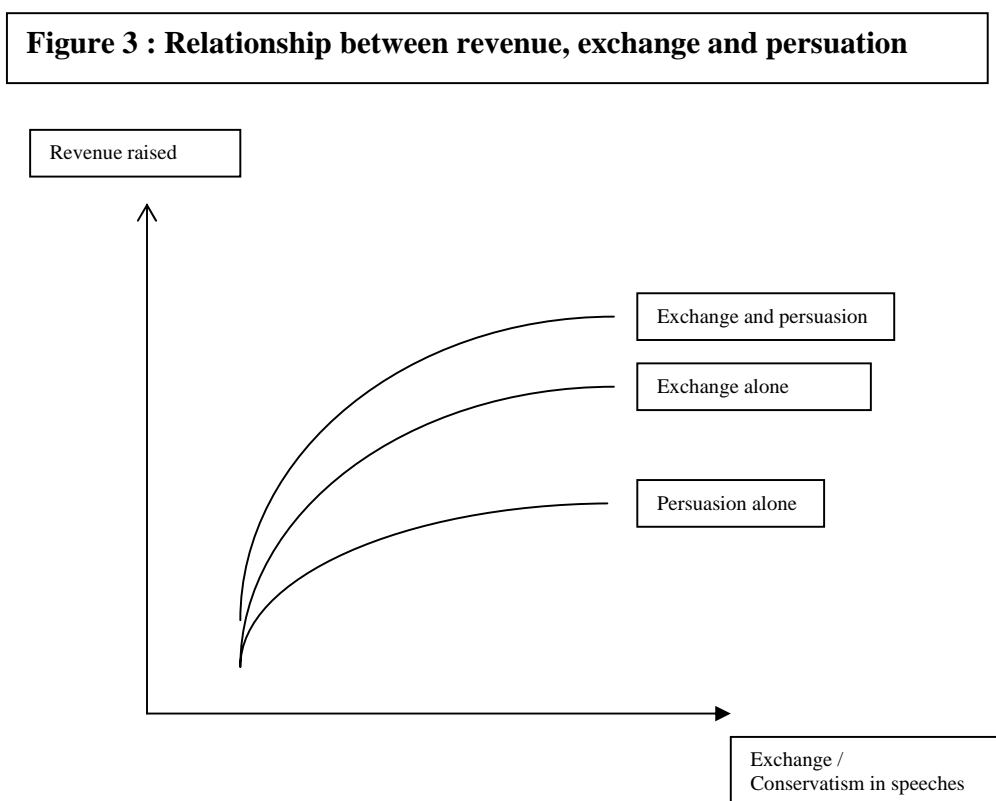
use coercion to increase the cost of disobedience or persuasion to increase the tax payer's beliefs about his benefits. This relationship between revenue on the one hand, and the discourse of fiscal liberalism and coercion efforts on the other hand is illustrated in figure 2. It suggests that persuasion alone yields less revenue than coercion alone and that persuasion combined with coercion is more efficient than coercion alone.

Figure 2 : Relationship between revenue, coercion and persuasion



Fiscal conservatism insists on restraint in spending and rigor in financial management. It aims at convincing the investor to accept to loan more money to the decision-maker at a given interest rate as more restraint and rigor means lower risks. When the persuasion effort is successful, revenue available for program spending is higher as a lower interest rate reduces the debt service charges. Figure 3 illustrates the relationship between fiscal

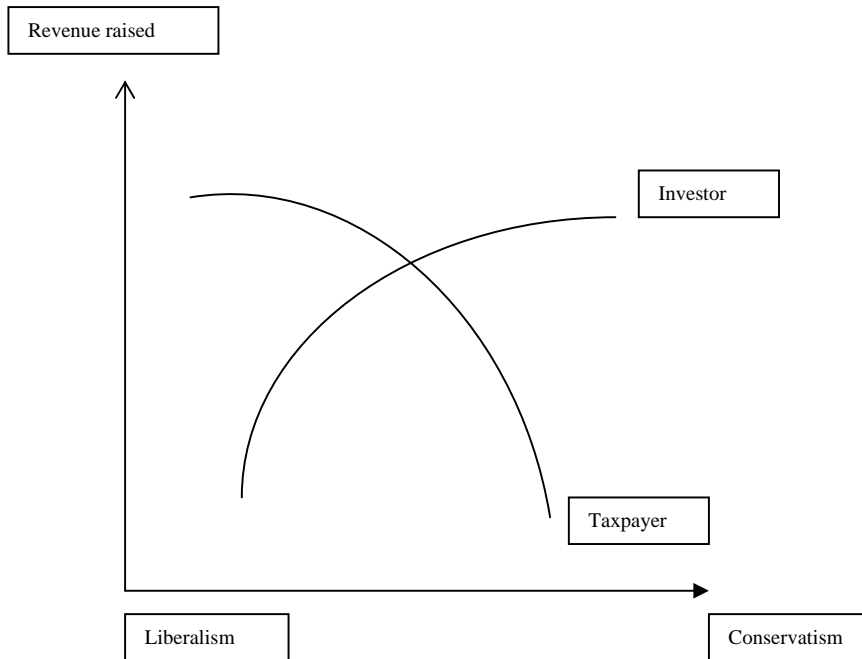
conservatism, exchange and revenue. Here again, persuasion alone is less efficient than exchange and exchange plus persuasion is even more efficient.



Speech and action complement each other. It is therefore reasonable to think that the decision-maker who wishes to increase her revenue when her coercion or exchange efforts reach a ceiling will use persuasion. But she faces an important problem as the tax payer and the investor do not react the same way to the content of her discourse. The tax payer is responsive to fiscal liberalism whereas the investor finds fiscal conservatism more convincing. As long as the decision-maker can separately speak to each one and there is no communication between the two actors, there is a simple solution: speak fiscal liberalism to the tax payer and fiscal conservatism to the investor. But in a context

where communication is public, the content of communication becomes a strategic issue. Then we do not consider two separate discourses anymore but on single discourse whose content may vary on a scale going from liberalism to conservatism. Figure 4 illustrates this situation. The positive curve represents the investor's reaction. The more fiscally conservative the discourse is, the more the investor trusts the security of his investment and, consequently, is willing to accept a lower interest rate. Conversely a fiscally liberal discourse insisting on the development of programs lowers the investor's confidence and makes him demand a higher interest rate in exchange for his capital. The tax payer has the opposite reaction. A discourse of fiscal liberalism will better convince him of the benefits he draws from the government than a discourse focusing on rigor. Consequently, the more fiscally conservative the discourse is, the less it persuades the tax payer actually to pay his taxes.

Figure 4 : Reaction of the investor and the taxpayer to the content of the decision-maker's speeches



In such a context, the decision-maker tends to locate her fiscal discourse half way between liberalism and conservatism in order to avoid alienating the tax payer or the investor. But there are moments when the decision-maker is more vulnerable to the choices of one or the other. Then she will adopt a more liberal or a more conservative discourse, depending on the situation. For example, when her revenue heavily depends on borrowing (that is, when last year's deficit was high), the decision-maker will try more assiduously to court the investor than when she had large surpluses. In this last case, she will rather hold a liberal discourse so as to convince the tax payer to continue paying his taxes. Therefore, when the context makes the decision-maker more vulnerable to the choices of the tax payer, her discourse is more liberal. When the investor's choices are more important for the decision-maker, her discourse is more conservative.

Fiscal policy dissonance

We can now move to looking at the match between speech and action. First, we want to see whether the decision-maker's fiscal discipline goes with fiscal conservatism in her speeches. When a high degree of fiscal discipline coincides with fiscal conservatism and a low degree fiscal discipline goes with fiscal liberalism, we say that speech and action are consonant. Otherwise, that is, when fiscal liberalism coincides with fiscal discipline and fiscal conservatism with fiscal indiscipline, we say that speech and action are dissonant. Second, we want to know whether the occurrences of consonance or dissonance ensue from a use of the instruments of coercion, exchange and persuasion that is coherent with the objective of ensuring proper revenue to the decision-maker. When this is the case, we speak of a benevolent strategy of information (consonance) or of persuasion (dissonance). When this is not the case, we speak of unjustified dissonance (we could as well call this a malevolent strategy of manipulation or simply deception).

Table 2 shows how the interaction between speech and action produces either consonance or dissonance. Things are simple. There is consonance when fiscal discipline in action is accompanied with fiscal conservatism in speeches or when fiscal indiscipline in action goes with fiscal liberalism in speeches. The cases where action is not in harmony with speech are manifestation of dissonance in fiscal policy. This dissonance is positive when action exceeds speech – that is, when there is more fiscal discipline in action than conservatism in speeches – or negative in the reverse case.

How should we normatively interpret these occurrences of consonance and dissonance in the context of power relations? Common sense and a superficial look at it would simply see honesty and dishonesty; consonance pertains to a benevolent decision-maker, dissonance to a malevolent one.

Table 2: Dissonance and consonance fiscal policy

		Content of speeches	
		Liberalism	Conservatism
Action	Discipline ($\Delta\text{Balance} > 0$)	<i>Positive Dissonance</i>	<i>Consonance</i>
	Indiscipline ($\Delta\text{Balance} < 0$)	<i>Consonance</i>	<i>Negative Dissonance</i>

However the conclusions suggested by an analysis in terms of power relations are more nuanced. They are summarised in table 3 which suggests that the interpretation of dissonance in fiscal policy depends on the main target of the discourse, the tax payer – when the decision-maker is in a situation of surplus – or the investor – when the decision-maker is in a situation of deficit. Under budget surpluses, the disciplined decision-maker needs to convince the tax payer that he «gets his money’s worth»; hence a liberal discourse. This is a case of benevolent dissonance as the discrepancy between speech and action serves the goal of ensuring sufficient revenue. On the other hand when there is loosening in fiscal discipline, there is no reason for the decision-maker to speak conservative to the tax payer. In this case the dissonance is unjustified. Likewise, when the main target of the discourse is the investor – that is, in a situation of deficit – the decision-maker wants to convince him of her rigor. Therefore her discourse is conservative. This is the second case of benevolent dissonance. But when the

decision-maker is disciplined, she needs not convince the investor of her rigor as her deeds speak for her. Dissonance is then unjustified.

Table 3: Dissonance and consonance by the main targets of speeches

		Main target of speeches			
		Taxpayer (Balanced budget or Surplus)		Investor (Deficit)	
		Liberalism	Conservatism	Liberalism	Conservatism
Action	Discipline ($\Delta\text{Balance} > 0$)	<i>Benevolent Positive Dissonance</i>	<i>Consonance</i>	<i>Unjustified Positive Dissonance (Malevolence)</i>	<i>Consonance</i>
	Indiscipline ($\Delta\text{Balance} < 0$)	<i>Consonance</i>	<i>Unjustified Negative Dissonance (Malevolence)</i>	<i>Consonance</i>	<i>Benevolent Negative Dissonance</i>

One has to conclude that dissonance in fiscal policy is sometimes benevolent. If consonance, or transparency, is preferable for democratic control over a decision-maker, it may be inefficient in helping a decision-maker reach her legitimate goals. Then dissonance is justified.

An empirical application of the model

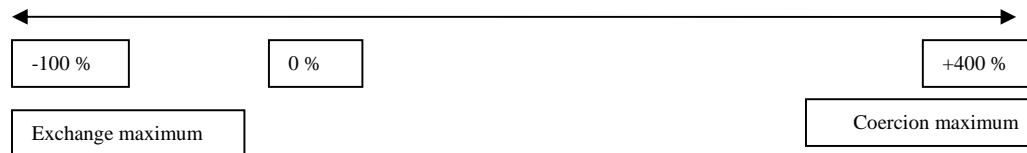
Is it possible to measure dissonance in fiscal policy using data from systematic observation? This section proposes an empirical application of the conceptualisation presented above to the fiscal policy of the four largest Canadian provinces, Ontario, Quebec, British Columbia and Alberta. First I show that the evolution of provincial governments' budget balances over the 1972-2001 period varies from one province to the other. I will then propose a method to measure fiscal conservatism in the inaugural speeches delivered by provincial premiers over the same period, using the Wordscores technique of content analysis (Laver et al. 2003). Here again, I will show that fiscal

conservatism varies both over time and space. Finally, I will measure the deviation between fiscal discipline and conservatism in order to identify moments of consonance and dissonance and to explore several paths of explanation.

Fiscal discipline in action: the evolution of budget balance in four Canadian provinces

As suggested above, the decision-maker draws her revenue from two sources, compulsory taxes through coercion and borrowing through exchange. Consequently in a power relation perspective and for a given spending level, the budget balance provides a measure of the intensity of the use of authority or coercion in the collection of State revenues. The higher the balance is, the more intense is the use of authority. The lower the balance is, the higher the intensity of the use of exchange. Therefore the policy of the budget balance may be conceived as the result of power relationship between the decision-maker, on the one hand, and the tax payer and the investor, on the other hand. A deficit indicates a more important use of exchange in the relationship; a surplus indicates a more important use of coercion. Figure 1 illustrates how a theoretical scale of the relative use of exchange and coercion may be envisaged³.

Figure 1 : Theoretical scale of the use of exchange and coercion in the raising of state revenue (Budget balance in percentage of total revenue).

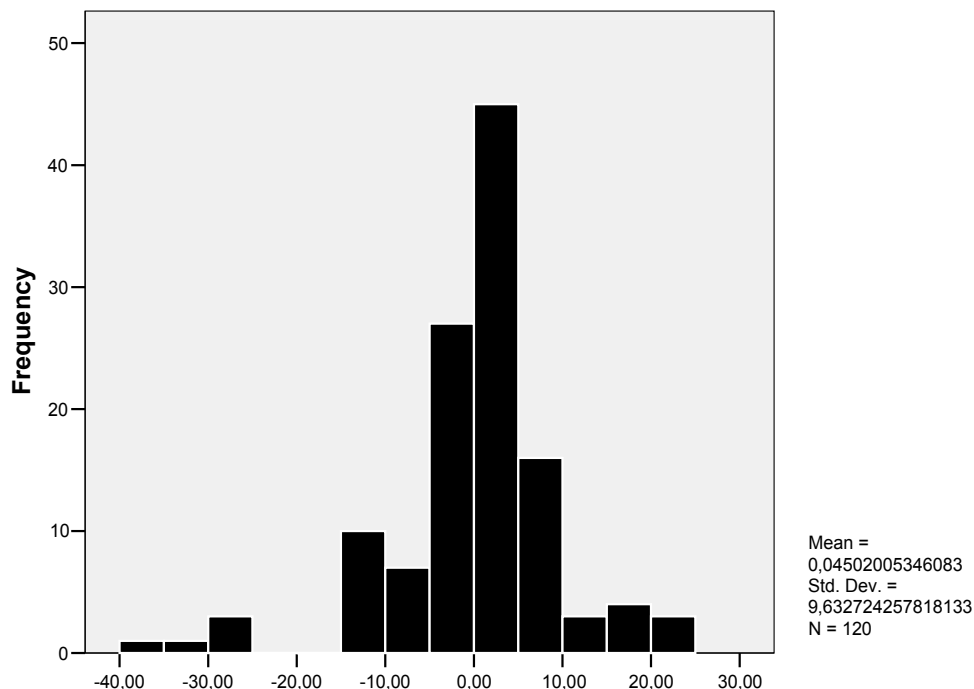


In the words of power politics, there is fiscal discipline when the decision-maker refrain from using exchange as an instrument to raise government revenue. In effect, there are two versions of the requirements for proper fiscal discipline. One, moderate, requires that a disciplined decision-maker balance her budget within an economic cycle. This allows for deficits in periods of economic slowdown provided that an equivalent surplus be realised in periods of growth. The other version is stricter as it requires that deficit be always avoided. To my knowledge there are no consistent series of provincial budget balance adjusted to economic fluctuations. However data on non-adjusted budget balance are gathered and regularly published by Statistics Canada. For this reason, I limit my application to a strict interpretation of fiscal discipline though a comparison of the two versions would have been preferable.

Another caveat is in order. It is not so much the level of the budget balance that indicates fiscal discipline as the change in budget balance. The decision-maker who makes a deficit while reducing it in comparison with last year's deficit manifests more fiscal discipline than the one who realises a balanced budget after a year of large

surplus. This is why I consider that an improvement of the budget balance ($\Delta\text{Balance} > 0$) is a manifestation of fiscal discipline whereas a deterioration of the budget balance ($\Delta\text{Balance} < 0$) shows a loosening in fiscal discipline. Figure 5 displays the distribution of the variation in budget balance of four Canadian provincial governments over the period 1972-2001. There has been an improvement of the budget balance in 71 budgets out the 124 (57 percent) and most of the changes range from -10 percent to +10 percent. The five extreme cases of deterioration relate to Alberta (from the most extreme to the less extreme cases: 2001, 1979, 1986 and 1982) and to British Columbia (1988). Our concern is to assess the extent to which these changes in budget balance coincide with the conservatism of inaugural speeches.

Figure 5: Percent change in the budget balance of four Canadian provinces, 1972-2001

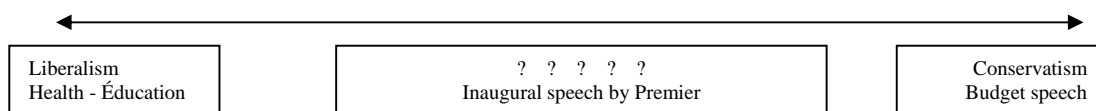


Conservatism in inaugural speeches

Three speeches mark the budgetary process at the provincial level: the inaugural speech in which the premier introduces the legislative program of his or her government at the beginning of every parliamentary session, the budget speech in which the minister of Finance presents the details of the government budget at the beginning of every fiscal year and several speeches in which ministers of various departments defend the government budget in commissions of the legislative assembly. Each of the speakers delivering those speeches plays a precise role in the budgetary process following Wildavsky's theory (1964; 1988)⁴. The minister of Finance is the guardian of the treasury while ministers of large program departments (mostly Health and Education at the provincial level) play the role of advocates of program and, consequently, they are advocates of spending. The premier plays the role of an arbiter who may sometimes support the guardians, sometimes the spenders, so as to influence the decisions of his cabinet in the direction that he prefers. Following Allison's famous maxim «Where you stand depends on where you sit» (Allison 1969: 711), it is assumed that guardians support policy positions that systematically differ from those supported by program advocates⁵. Thus minister of Finance tends to support fiscal conservatism, emphasizing restraint and control while ministers of Health or Education focus more on programs and therefore express more fiscal liberalism. The premier's discourse fluctuates between the two, now conservative, now liberal, thus accompanying the actions of his government as regards fiscal discipline.

For the purpose of this empirical illustration the issue is to assess to what extent the premier speaks like his minister of Finance or, conversely, like his ministers of Health or Education. Therefore we want to know is the inaugural speech is closer to the budget speech delivered by the minister of Finance than to the remarks made by ministers of Health or Education in parliamentary committees. It is assumed that the closer an inaugural speech is to the budget speech, the more conservative it is; and the closer it is to speeches by Health or Education ministers, the more liberal it is.

To assess the distance between the premier's discourse and that of his ministers, I used the Wordscores technique developed by Laver, Benoit and Garry (2003). This content analysis method compares the vocabulary used in various speeches in order to determine their respective position on a given continuum. Here we are interested in assessing the position of inaugural speeches on a continuum ranging from fiscal liberalism to fiscal conservatism. Speeches by Education or Health ministers represent the liberalism end of the continuum while the budget speech represents the conservatism end. These are the «reference texts» whose policy positions are determined *a priori*. The inaugural speech is the «virgin text» to be compared to the reference texts in order to determine its position relative to them:



Paraphrasing Laver and his colleagues (2003: 313), let us say that all we know about inaugural speeches are the words that they contain. We compare those words to those

we find in speeches of which we «know» the position on the liberalism-conservatism scale. The inaugural speech delivered at the beginning of a session is thus compared to the budget speech (arbitrarily coded +1) and to the budget remarks of ministers of Education or Health (coded -1) delivered in the same session. A computer program gives each word a score between -1 and +1 according to its relative frequency in the reference texts. For example, if the word «deficit» appears 10 times in a 1000-word speech delivered by the Health minister, and 90 times in a Budget speech of equal length, it is given a score of 0.08 (that is, $0.01 \cdot -1 + 0.09 \cdot 1$). Then, if the same word appears 5 times in a 1000-word inaugural speech, it gets a score of 0.0004 (that is, $0.08 \cdot 0.005$). Adding these scores for each non-unique word found in the inaugural speech, we get a conservatism score for that speech.

Laver and his colleagues propose to consider the issue in another perspective. On the basis of the frequency distribution of each word in the reference texts, we can estimate the probability of reading one reference text while reading a given non-unique word in the virgin text. In the example above, we know that the probability that we are reading the Budget speech while reading the word «deficit» is 0.9. If we assign a score of +1 to the Budget speech and -1 to the Health or Education speeches, it is logical to give the virgin text we are reading a score of 0.8 each time we read the word «deficit». After doing this for every non-unique word in the reference text, we divide the sum of these scores by the number words. This mean corresponds to the conservatism score of the text.

We applied this method to the inaugural speeches pronounced by the premiers of Ontario, Quebec, British Columbia and Alberta over the 1972-2001 period. To do this, we compared the content of 384 speeches running a «wordscores» analysis for each province-year for which we could find the relevant speeches⁶. Figure 6 displays the distribution of the conservatism scores for the inaugural speeches in our 96 province-year. The scores range from -0.10 (liberalism) to +0.32 (conservatism) with an average of +0.09. On average, then, inaugural speeches are slightly fiscally conservative. More strictly, let us say that the vocabulary used in inaugural speeches tend to be slightly closer to the vocabulary of Budget speeches than to that of Health or Education speeches. A distribution by province shows that the mean score is somewhat smaller in Quebec and Ontario than in Alberta and British Columbia.

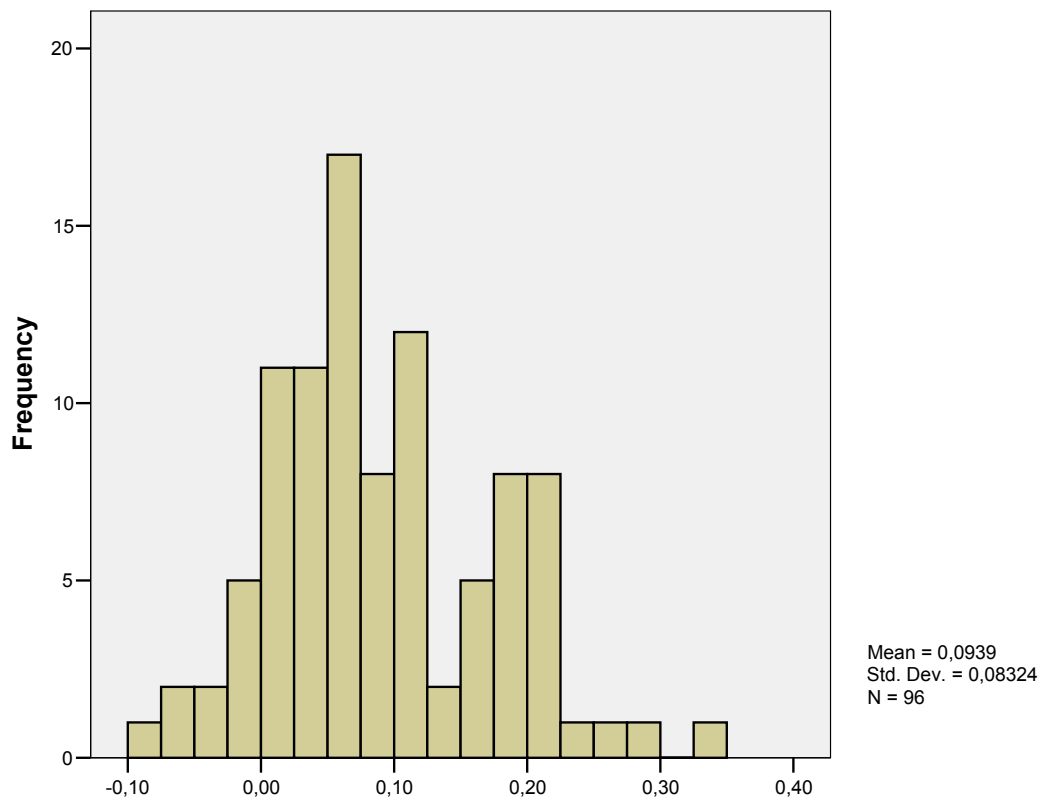


Figure 6: Conservatism score of inaugural speeches (Wordscores Technique)

The discrepancy between speech and action: measuring dissonance

The issue is whether fiscal discipline in provincial governments coincides with conservatism in inaugural speeches. In order to compare speech and action, I measure, for each year, the distance⁷ between fiscal discipline (as displayed in Figure 5) and fiscal conservatism displayed in Figure 6. The result is displayed in Figure 7. The mean discrepancy between fiscal discipline and fiscal conservatism is -0.09. On average, premiers show a high degree of consonance. Their actions coincide with their discourse. They speak fiscal liberalism when they deteriorate the budget balance and fiscal

conservatism when they improve it. But several premiers improved their budget balance while speaking liberal (positive dissonance) and several others deteriorated their budget balance while speaking conservative (negative dissonance). In order to identify more precisely the border between dissonance and consonance, I created a three-level ordinal variable. The 25 cases for which the Action-Speech discrepancy was not significantly different from zero were classified as «Consonant». The 44 cases significantly above zero were classified as displaying «Positive dissonance». The remaining 27 cases for which the discrepancy is significantly lower than zero were classified as «Negative dissonance». These results are displayed in Table 4 which shows that provincial premiers have a dissonant fiscal policy in 74 percent of the cases. But is this behaviour the fact of malevolent politicians who try to deceive their listeners or is it the fact of benevolent decision-makers who try to maximise their revenues by appropriately adjusting their speech to tax payers and investors as suggested by our theory?

To answer this question, we compared the moments when the budget balance was in surplus or balanced to those when it was in deficit. Indeed our theory suggests that positive dissonance is benevolent when the budget balance is positive (that is, when the main target of the discourse is the tax payer) but it is unjustified (malevolent) when the main target is the investor (that is, under deficit). Conversely, negative dissonance is benevolent when the main target of the discourse is the investor. In this context, we consider consonance as always benevolent. The results of this comparison are reported in Table 4 where we see that the behaviour is benevolent in 71 percent of the cases (25.7 + 45.7) when in balance or in surplus and in 54 percent of cases in situations of

deficit. Therefore, when one takes into account the main target of fiscal policy speeches, the frequency of benevolent behaviour noticeably increases.

Table 4: Cases of benevolence in fiscal policy (percent)

Types of Action-Discourse Differences	Total	Last year's budget result	
		Balance or Surplus	Deficit
Negative dissonance	28,1	28,6	27,9
Consonance	26	25,7	26,2
Positive dissonance	45,8	45,7	45,9
Total	100	100	100
(N)	(96)	(35)	(61)

Explaining malevolent dissonance in fiscal policy

Our model makes us understand why governments express consonance or benevolent dissonance in fiscal policy: to inform taxpayers and investors in the first case or to convince them to pay their taxes or to ask for a reasonable interest rate in the second case. But why would governments express malevolent dissonance in fiscal policy? It is clear that what we call «malevolent dissonance» is a dissonance that does not fit the objective of informing (consonance) or convincing the taxpayer or the investor (benevolent dissonance). Therefore, malevolence means pursuing many objectives that are different than these two, which, if not correctly understood by the observer, is the equivalent of deception.

To test this idea, I make four hypotheses. First, I make the hypothesis that in a downturn of the economic cycle, politicians will try to convey the idea that they are not responsible

for the situation nor that the downturn is not as severe as it may seem. In doing this, they stop targeting taxpayers and investors thus expressing malevolence dissonance. The relationship between the change in unemployment rate and benevolence should therefore be negative.

I make the second hypothesis that in election year, there will be less malevolence (or more benevolence) as a government facing an election does not want to be accused of deception. Therefore, the relationship between election year and benevolence should be positive.

A third hypothesis links party ideology and benevolence. I argue that parties of the right are more benevolent than parties of the left because of their critical stand vis-à-vis the State in general. Indeed, for people of the right, the good guys are more on the side of the private sectors (those people who work hard to make a living and to create wealth for the nation) than on the public sector (who is populated by greedy bureaucrats and dishonest politicians). Thus, when in power, rightist politicians try to appear as «clean» as possible not to be accused of these «sins». Therefore the relationship between benevolence and parties of the right should be positive.

A fourth hypothesis suggests that the level of benevolence is not the same in every province. Prejudices and common sense parlance in Canada would suggest that benevolence is higher in Alberta and Ontario, and lower in British Columbia and Québec.

Table 5 displays the results of a logistic regression predicting the occurrence of benevolent behaviour in fiscal policy. They suggest that governments are significantly less benevolent when unemployment increases and that they are significantly more

benevolent when elections come or when a rightist party is in power. Therefore the analysis shows that our first three hypotheses are confirmed. However, the fourth hypothesis is disconfirmed: There is less benevolence in Alberta and Ontario than in Québec and British Columbia. The value of the pseudo-R² indicates that the model catches a sizeable proportion of the variance in the dependent variable.

Table 5: Logistic Regression Predicting the Occurrence of a benevolent behaviour

		B	S.E.	Wald	df	Sig.	Exp(B)	95,0% C.I. for EXP(B)	
Step 1(a)	ΔUnemployment (%)	-0,023	0,013	3,202	1	0,074	0,978	0,954	1,002
	Election year	1,088	0,580	3,511	1	0,061	2,967	0,951	9,255
	Right	1,682	0,920	3,345	1	0,067	5,375	0,886	32,595
	Québec	-1,081	0,719	2,259	1	0,133	0,339	0,083	1,389
	Ontario	-1,798	0,905	3,948	1	0,047	0,166	0,028	0,976
	Alberta	-2,128	0,893	5,674	1	0,017	0,119	0,021	0,686
	Constant	0,504	0,573	0,773	1	0,379	1,655		

Nagelkerke R Square = 0,24

Conclusion

There is consonance in fiscal policy in the four largest Canadian provinces, in about 25% of the cases and the dissonance is benevolent in 46% of the cases under balanced budget or under surplus, and in 28% of the cases under deficit. Therefore governments in these provinces are more often benevolent than not (60% of the cases). This is especially true in election years, under a rightist party, when the economy improves (unemployment rates decrease). Taking these factors into account, benevolence is significantly less frequent in Alberta and Ontario than in Québec and British Columbia.

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¹ I am thankful to Albert Breton, Édouard Imbeau and Grégoire Rota for their comments on a previous version of this paper. I acknowledge the financial support of the Social Sciences and Humanities Research Council of Canada.

² For the remaining of this text I will concentrate on social power. Whenever I will use the term «power», I will mean «social power», unless otherwise mentioned.

³ It is clear that, as I suggested above, positive values of a budget balance indicate growing use of coercion. But negative values (a deficit) do not necessarily indicate an absence of coercion. Since a budget balance is the difference between revenue and spending, the inferior limit of a theoretical scale comprising every possible value of a budget balance (as a percentage of total revenue) would be -100, when there is no revenue from taxation or from the sale of goods and services, and when all spending is financed through borrowing. This would be the case of a government not using any coercion in collecting

its revenue, only exchange. Thus, from -100 to 0 on our theoretical scale, the use of coercion grows. What would the upper limit of this scale be? I propose 100 percent of GDP or, if total government revenue equal 25 percent of GDP as is the case of the provincial government of Quebec, 400 percent of total revenue, hence my +400%. In fact, we have two scales; one, measuring the intensity of the use of coercion, goes from -100 to +400; the other, measuring the intensity of the use of exchange, ranges from -100 (maximum) to the actual percentage of state revenue raised through the sale of goods and services (around 10% for the government of Quebec in 2000).

⁴ Wildavsky's work is about the American budgetary process. For an application on Canada at the federal level, see Savoie 1990 and, at the provincial level, see Imbeau 2000.

⁵ For an empirical test of this proposition, see Imbeau 2006.

⁶ Because there is not always an inaugural speech every year in every province and because some of the speeches could not be found, we could get results for only 28 out of the 30 years of the period for Alberta, 30 for British Columbia, 22 for Quebec and 16 for Ontario.

⁷ Actually, I transformed the two measures into Z-scores and I then subtracted the measure of conservatism from the measure of discipline [ACTION – SPEECH]. This difference is reported in Figure 7. Higher values, positive or negative indicate a high degree of dissonance. Values close to zero indicate consonance.