Partisan priorities under fiscal constraints in Canadian provinces

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Abstract.

Fiscal federalism, aging and rising health care costs are constraining Canadian provinces' fiscal room to maneuver. Can provincial government partisanship influence policy choices when governments face fiscal pressures? This article studies the impact of fiscal pressures on provincial governments' expenditure priorities, conditional on government partisanship. It argues that policy feedbacks and the preferences of the governing party's core constituency determine expenditure priorities. Using a compositional dependent variable analysis, the article models budget policy choices in Canadian provinces from 1981 to 2018. The study reveals that when provinces undergo different types of fiscal pressures, the proportion of health care expenditures increases, while "other" government expenditures, which are the programs that are not classified as education or social spending, are retrenched. While governments' ideology does not modify the crowding out effect of "other" expenditures by health care, left-wing governments prioritize social expenditures, while right-wing governments retrench them.

Like in other advanced democracies, the fiscal room to maneuver of the governments of Canadian provinces is constrained: relatively low economic growth, aging and growing health-care costs are both increasing public expenditures and limiting the expansion of fiscal resources at the same time. The New politics of the welfare state research program (Pierson 1998) suggest that this reduction of the fiscal room to maneuver leads to a convergence of mainstream parties. As governments' fiscal room to maneuver is constrained, left-wing governments cannot expand the size of the state as much as they prefer, while the popularity of social policies diminishes right-wing government's capacity to reduce the size of the state (Pierson 1998).

In contrast, others would suggest that fiscal pressures contribute to revealing government policy priorities. According to this argument, situations of intense fiscal pressures are good moments to identify government's real priorities as budgetary politics become a zero-sum game and governments face acute policy trade-offs, as new expenditures need to be funded by cutbacks in other programs or by tax increases. In periods of fiscal expansion, governments can increase spending in diverse areas and even reduce taxes in order to satisfy different constituencies. As such, the effect of government partisanship should still be visible even under situations of intense fiscal pressures.

This article models the effect of two types of fiscal pressures on policy choices. It analyzes the policy prioritization of provincial governments when they are exposed to a reduction of transfers from the federal government or to higher interest payments on their public debt. These fiscal pressures are exogenous to government decisions, in the sense that they are outside the direct control of the current provincial government. They reduce governments' fiscal room to maneuver, as they diminish their revenues and increase their expenditures. Can provincial government partisanship still influence policy choices when their fiscal room to maneuver is reduced?

I argue that all parties react to fiscal pressures by prioritizing health care to the detriment of less visible and encompassing policies. However, I show that left-wing parties protect social expenditure budgets from the effect of fiscal pressures, following a power resource model of partisan decision-making (Korpi & Palme, 2003). This finding contradicts partisan realignment theory, which would suggest that partisan differences in policy priorities disappeared as the constituencies of parties recomposed (Gingrich & Häusermann 2015).

The literature on the impact of government partisanship on public policies has not paid sufficient attention to modelling the conditional effect of government partisanship on policy choices under different scenarios of contraction and expansion of their fiscal room to maneuver. While some rare articles addressed similar issues in comparative politics (Lipsmeyer 2011; Jensen and Mortensen 2014), Canadian public policy has not modelled if the impact of partisanship is conditioned by a province's fiscal situation. The Canadian political economy literature generally focuses on government partisanship's impact on levels of spending (Bodet, 2013; Haddow, 2014) or on budget deficits (Simon & Tatalovich, 2014). Conditional modelling strategies are restricted to testing political budget cycles (R. D. Kneebone & McKenzie, 2001; Petry, Imbeau, Crête, & Clavet, 1999; Tellier, 2005), or partisan reactions to trade liberalization (Pickup, 2006). While Kodolov and Hale (2016) address the impact of fiscal constraints on provincial budgets, they do not take government partisanship into account.

Moreover, studies in comparative public policy could benefit from using an empirical technique designed to model policy trade-offs. Since government's capacity to increase levels of taxes and spending is relatively constrained, policy-makers need to prioritize between different types of expenditures. Nowadays, public finance is less about expenditure expansion; it rather reflects a zero-sum game, where policy expansion in one area comes at the expense of retrenchment in another (Häusermann 2010). To adequately model this situation, this article uses a compositional dependent variable analysis along with seemingly unrelated regressions.

I model the impact of reductions of federal transfers and of increases in interest payments on public debt on expenditure composition. Both types of fiscal pressures are associated with a higher proportion of health-care spending in budgets. The type of expenditure bearing the largest cutbacks is not education or social spending, but the "other" category, which includes "core" state functions, such as the bureaucracy, the justice system, economic affairs and law enforcement, but also some more "postmodern" functions, such as culture, environmental protection and immigrant integration. In brief, increases in fiscal pressures will precipitate the crowding out of other provincial expenditures by health care, regardless of government partisanship. This result reflects a political reality: less visible and encompassing programs are vulnerable to cutbacks.

Contributing to the literature on partisan policy choices in Canadian provinces, the article shows that government partisanship influences policy priorities. The impact of partisanship is especially clear when fiscal pressures are not taken into account: right-wing government decrease social

expenditures to increase education spending, while left-wing governments increase other and social spending by reducing the budgets of health care and education. When fiscal pressures are interacted with government partisanship, we find that all parties react to fiscal pressures by prioritizing health care expenditures, to the detriment of the "other" category of expenditures. When their fiscal room to maneuver is reduced, the effect of government partisanship is limited to social spending and education: left-wing parties prioritize social expenditures, while right-wing parties shift social expenditures budget towards education. Hence, the power resource model of partisan decision-making holds when governments face fiscal pressures.

The first section of this article discusses the theoretical expectations regarding government partisanship and the impact of fiscal pressures on budget composition. The second section describes the data and presents the methodological choices. The third section proceeds to the analysis of the impact of different types of fiscal pressures in interaction with government partisanship on the expenditure composition of provincial budgets from 1981 to 2018. The last section concludes.

Theory and hypotheses

By forcing difficult arbitration between budget categories, situations of fiscal pressures reveal governments' priorities and how they trade off the preferences of different voters and groups. However, analyzing the impact of fiscal pressures on levels of spending is tautological: no one should be surprised to observe that governments under fiscal pressures end up cutting back expenditures. It is more interesting to study changes to the composition of budgets when fiscal pressures force a government to prioritize certain policies. The composition of budget reflects past political struggles and feedback into the contemporary political life as it shapes the size and influence of different coalitions of constituents (Beramendi et al. 2015). Unfortunately, the study of expenditure composition in Canadian provinces is plagued by the termination of Statistics Canada's financial management system, its main series on provincial budget data that allowed to build theoretically meaningful categories of expenditures. However, Kneebone and Wilkins from the University of Calgary Policy School assembled a dataset aggregating provincial public accounts. Their division of provinces' expenditures into four categories; health care, social spending, education, and "other" government expenditures, is used throughout this article.

There are very few studies in comparative public policy on the impact of partisanship on expenditure composition. Potrafke (2011) finds that left-wing governments increase expenditures in education and general public services in OECD countries. Adolph et al. (2020) show that Democrats and Republicans de-fund programs favoured by their ideological opponents to fund their own priorities in American states. Breunig and Busemeyer (2012) find that fiscal pressures, measured by declining revenues and increases in interest payments on the public debt, increase the proportion of budgets allocated to entitlement expenditures relative to discretionary spending, while government partisanship has no impact on budget composition. However, no study has tested the impact of fiscal pressures on expenditure priorities in Canada, nor the conditional effect that government partisanship might have on the relationship between the two variables.

Partisanship and policy feedback: A theory of expenditure prioritization.

I argue that a public policy will be more resilient to fiscal pressures when it offers concentrated and visible benefits to sizeable constituents, which is creating strong policy feedbacks. Policy feedbacks explains why health care should be the most resilient expenditure to cutbacks, while the "other" category should be the least resilient. I expect that this pattern will hold regardless of government partisanship, but I propose two hypotheses regarding partisan priorities about education and social spending. Both hypotheses assume that that the prioritization of expenditure should reflect the preferences and the relative influence of the constituencies of different parties (Beramendi et al. 2015). They also assume that political parties aim to balance the preference of their core constituencies with those of median voters to win elections (Przeworski & Sprague, 1986) and that parties will respond differently to external shocks by protecting their core constituencies (Boix 1998). Under situations of fiscal pressures, parties in favour of state expansion must choose which policy they prefer, notably between education and social spending. Two hypotheses relate to this choice. The first builds on the power resource perspective to suggest that left-wing government should prioritize social spending because it directly benefits their lower income constituencies, while right governments should favour education since it reflects the preferences of their higher income constituents. In contrast, the other hypothesis proposes that partisan realignments towards new constituencies diminish the differences in policy preferences between left and right governments.

Policies create feedback effects in politics: broad-based programs become popular and interest groups are formed to defend the policies from which benefit, creating path dependencies in welfare states (Pierson 1993). Theoretically, the positive feedback should be strongest when the policy coverage is universal (Jordan, 2013) when the policy is proximate, in the sense of offering direct benefits to large numbers of citizens (Larsen, 2018), and when it covers risks that are shared by different groups of the population (Jensen 2014; Rehm 2016). Accordingly, positive feedback effects should be particularly strong for health care, which covers a life cycle risk shared by citizens of all classes and incomes (Jensen 2014). Policies covering such life cycle risks tend to benefit from broad popular support, in contrast to policies covering risks affecting smaller shares of the population, like unemployment benefits (Rehm 2016). Moreover, citizens should be particularly likely to oppose cutbacks to health care as it is universal and proximate to many citizens (Jordan 2013; Larsen 2018).

This policy feedback mechanism is rarely mentioned in studies about the growing costs of health care in Canadian provinces. Not only do population aging and technological innovations increase health care costs (Conference Board 2014), but the public's resistance to any cutback in the health care system and its preference to maintain or expand service provision must be taken into consideration. In Canada, as elsewhere, health care expenditures are by far the most popular and salient type of public expenditure (see appendix figure A1). As a result, from 1981 to 2018, health care went from an average of 28% to 43% of provincial program expenditures and the absolute amount of health spending by province has rarely been reduced.

Some expenditures are the opposite of health care in terms of coverage, proximity to citizens and visibility. Castles (2007) pointed out that political economists left out what he labelled "core government expenditures", even if they include crucial functions of governments. For Castles, "core expenditures" represents everything not included in education, health and social spending, the most commonly studied policies. In the case of Canadian provinces, the term "core expenditures" might not be correct since the "other" category includes regalian functions, such as a police force, the bureaucracy and the administration of justice, but also more "postmodern" functions such as culture, environmental protection and immigrant integration. I hypothesize that "other" expenditures should be crowded out by fiscal pressures as they are significantly less proximate, visible and popular and should thus be less strongly supported by the public than health, education and social transfers. Indeed, relatively fewer citizens are directly affected by these other expenditures. If we believe that

governments are responsive to public opinion and aim preserve the most popular types of spending even when they face revenue shortages or consolidate their budgets, it is likely that "other" expenditures may be the least resilient function of government.

In brief, I expect that health will be the most resilient type of expenditures to fiscal pressures while the "other" category should be the least resilient. I propose that such a pattern is not conditioned by government partisanship: left and right governments are similarly affected by the policy feedback effects of health care and of other expenditures.

Hypothesis 1: When governments face fiscal pressures, the proportion of health care expenditures increases, while the proportion of expenditures in the "other" category decreases, regardless of government partisanship.

In contrast, policy choices regarding the prioritization of social spending and education should be conditioned by government partisanship. I contrast two hypotheses concerning the impact of government partisanship on social spending and education. The first is based on power resource theory and rests on a classical conception of parties' constituencies (Korpi and Palme 2003): left-wing parties' core constituencies are relatively poor working-class voters who prefer additional social spending, while right and centrist parties' constituencies have higher incomes and will prefer education over social spending.

Most studies of budgetary politics in Canada tend to support a power resource model, where right-wing governments (conservatives and social credit) are associated with lower taxes and spending, while left (NDP and PQ) and to a lesser extent, centrist (liberal) governments spend more (Bodet 2010; Haddow 2014; Pétry et al. 1999; Tellier 2005). Kneebone and Mackenzie (2001) also reveal that all Canadian provincial parties increase health and social spending, while conservative parties are associated with higher spending on education and protection of individuals. In contrast, Bodet (2010) shows that NDP governments spend more on health and social spending than Conservative governments, while Liberal governments spend more on social services and less on health than their Conservative counterparts. These clear partisan effects reflect the relatively large tax and spending autonomy of Canadian provinces and their parliamentary systems concentrating power (Tellier 2005).

Very few authors studied how governments of different ideological orientations modify their policy priorities in response to external shocks and none of them did in Canada. Lipsmeyer (2011) argues that in times of economic boom, governments are less hindered by economic pressures, and are more likely to implement policies that fit with their ideological preferences, as the right reduces taxes and spending, while the left increases them. Economic prosperity buffers the effect of budgetary changes: buoyant revenues can fund additional spending or reductions of taxes without concomitant rises of tax rates or cuts to public services. In contrast, during recessions, governments need to cushion citizens against economic insecurity by increasing welfare spending, regardless of their ideology (Lipsmeyer 2011). This finding relating to economic conditions contrasts with Jensen and Mortensen (2014) who address the conditional effect of fiscal policy. They show that that in OECD countries, right-wing governments pursue large cutbacks in unemployment insurance when they reduce budget deficits, while left-wing government increase social protection.

While a power resource model is quite straightforward regarding parties' preferences for social spending, its predictions concerning preferences for education are less obvious. Jensen (2011) finds a negative association between left-wing parties and education spending because, he argues, education is not particularly redistributive. Garritzman et al. (2018) find that the constituencies supportive of education investments tend to have relatively high income. As such, Rauh et al. (2011) find a positive association between right-wing governments and the share of budget allocated to tertiary education in German Landers. Thus, if fiscal pressures force governments to prioritize, left-wing parties should choose social spending, while right-wing parties should favour education.

Hypothesis 2. When facing fiscal pressures, left-wing parties increase the proportion of social spending, while right parties shift the budget of social spending toward education spending.

In contrast, a hypothesis based on partisan realignments suggests that the electorate of mainstream left-wing parties has changed over time, attracting more educated middle-class voters instead of their traditional core working-class voters (Piketty 2019). Such a model predicts few policy differences between parties as the realignment shifted the policy positions of left-wing parties towards

education investments to the detriment of social transfers (Gingrich and Häusermann 2015; Iversen and Soskice 2019). Nowadays, the main political strategy of centre-left parties is to attract middle-class voters with additional education investments (Abou-Chadi and Wagner 2019). Educated middle class voters will prefer education investments to social spending, while less educated working-class voters will prefer the opposite (Gingrich and Häusermann 2015). Moreover, the transition to a knowledge economy significantly increases public demand for human capital investment in education (Garritzman et al. 2018) and spreads the enrolment in higher education institutions. In this context, both the left and the right proposes higher education spending (Ansell, 2010). Several studies have found support for a realignment model. Armingeon et al. (2016) show that left governments are more likely to cutback social expenditures than right-wing governments when they implement fiscal consolidations. Similarly, Kraft (2017) finds that left-wing governments are more likely to improve budget balance by retrenching spending if fiscal austerity is salient in the public discourse. As such, a realignment model would predict the following hypothesis:

Hypothesis 3. Government partisanship does not condition the impact of fiscal pressures on expenditure prioritization.

Data and Methods.

The main dependent variable is a four-category compositional dependent variable based on Kneebone and Wilkins's (2016) categorization of provincial expenditures divided in four broad categories: education, health, social spending and "other" government spending. Figure 4.1 presents the four categories of expenditures as a percentage of total program expenditures in the ten Canadian provinces, on average, from 1981 to 2018. Apart from a constant increase in the share of expenditures allocated to health care from 27.8% to 42.9%, the most notable change is the decline of other expenditures, decreasing from 38.2 to 25.1% of program expenditures. Still, other expenditures' share of spending remained roughly constant since the late 1990s, as the main decline happened before this period. Education, whose share of total expenditures declined from 25.4 to 21.6 %, has witnessed a small decline only since the late 90s, after a period of stability in the 1980s and early 1990s. Social transfers remain the least expensive category and are maintained at a constant level on average for the whole period at about 10% of total expenditures.

Figure 4.1. Evolution of the proportion of expenditures, 10 Canadian provinces, 1981 to 2018.
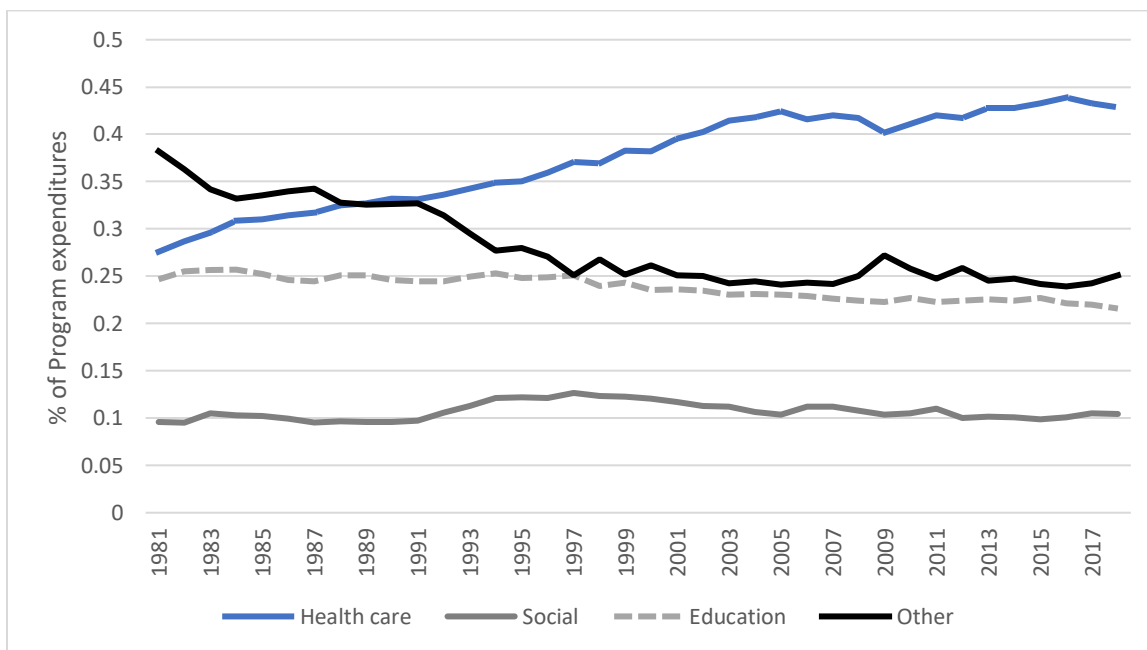
Following Breunig and Busemeyer (2012), I propose two measures of fiscal pressures: changes to federal transfers and to interest payments on the public debt as a percentage of GDP. These variables are exogenous to government decisions as they are outside of the direct control of provinces. They represent a direct and natural measure of fiscal stress imposed "externally" that change the current state of the budget and force decision-makers to reveal their policy priorities. Provinces have to suffer the consequences of changes in federal transfers or in higher interest payments on government debt. Interest payments are conditioned by past policy decisions, on the interest rate set by the Bank of Canada and on financial markets' evaluation of the sustainability of provincial debt, three factors on which current provincial governments have very limited influence. As a robustness check presented in the online appendix, both measures are combined into an additive index of fiscal pressures. To do so, I multiply the first difference of federal transfers by -1, to ensure that higher values correspond to additional fiscal pressures and sums the inverted first difference of federal transfers and the first difference of interest rates payments as a percentage of GDP. This ensures that the results are not affected by situations where increases in interest payments are not offset by higher federal transfers.

Figure 4.2 presents the evolution of the fiscal pressures in the ten provinces from 1981 to 2018. Exogenous revenues have declined from a peak of 6.4% to 4.9% of GDP, with two main periods of decline: from their peak in 1993 to 2003 (2.3%) and from 2009 to 2018 (1.15%). Interest rates payments double from the early 80s to the mid 90s and follows a downward trend afterwards. It is worth noting that these are overall averages and that there is meaningful interprovincial variation to exploit in a quantitative analysis (see appendix figure A2 and A3).

Figure 4.2. Evolution of fiscal pressures, 10 Canadian provinces, 1981-2018.
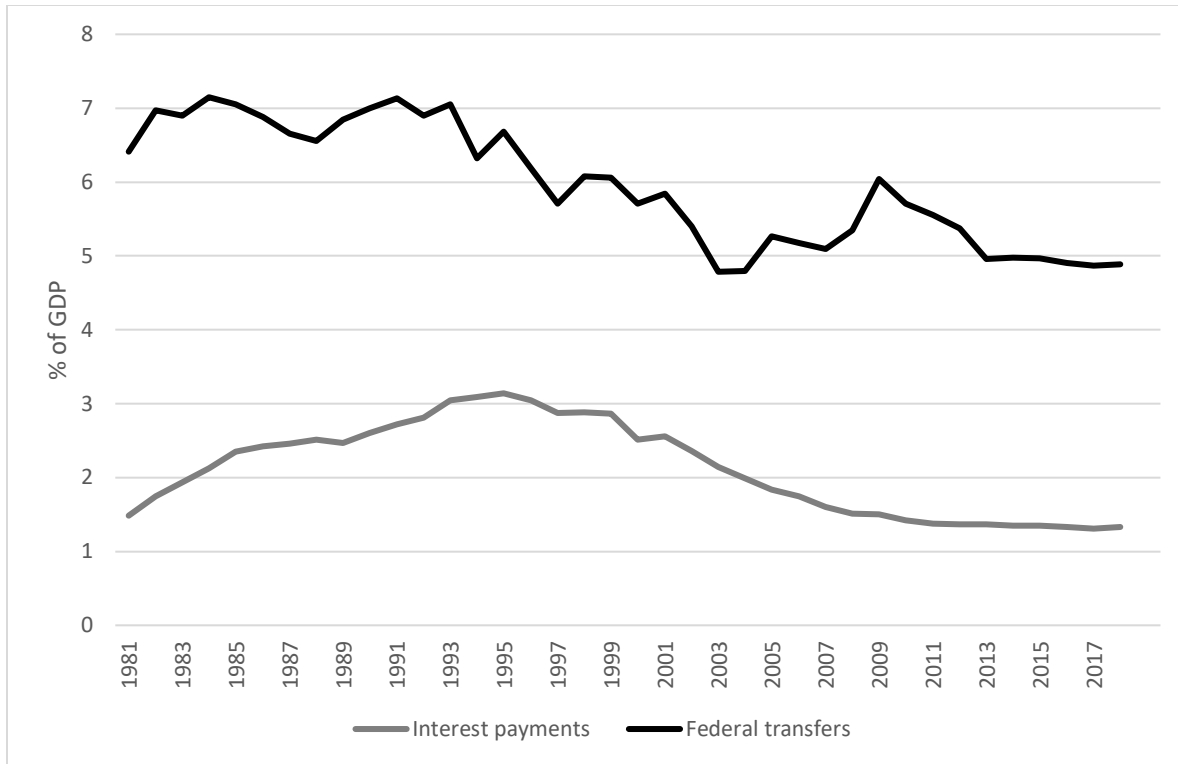
To measure partisanship, I include three different partisanship dummy variables in the models, using a common measurement strategy in comparative Canadian provincial public policies (see for example Pétry et al. 1999; Tellier 2005; Haddow 2014). When conservative parties (and BC Liberals) are in government, the variable *Right* is coded 1, when the New Democratic Parties or the Parti Québécois are in government, the variable *Left* is coded 1, while when Liberal parties (except BC Liberals) are in government, the variable *Centre* is coded 1. Interprovincial comparisons make it easier to model the impact of partisanship than international comparisons as the preferences of the left and the right are more similar within the same country as between countries (Bodet 2013; Rauh et al. 2011).

Conducting the analysis in the context of Canadian provinces allows to control for many confounding variables that could bias the relationships between fiscal pressures, partisanship and expenditure composition, without reducing the degrees of freedom in regression analysis. Thus, I can limit the amount of control variables. I use Statistics Canada data for demographic controls that should influence health and education spending (the ratio of young (18-) and older (65+) citizens on the total population). I use two economic controls, annual per capita GDP growth and the employment rate (which should influence social transfers. Moreover, I follow Tellier (2005) and add an election year dummy to control for political manipulations of budgets before elections and a count variable of the

number of years before an election to control for government's tendency to implement unpopular policy decisions at the start of a legislature. Many studies suggest that the impact of government ideology on policies is conditional on the electoral cycle, as the impact of ideology is muted in election years but reappears in the years following an election (Kneebone and Mackenzie 2001; Pétry et al. 1999; Tellier 2005). Descriptive statistics are presented in the appendix. None of the control variables are subject to post-treatment biases, since they are not directly affected by fiscal pressures and government partisanship.

Methods: Compositional Dependent Variable Analysis

In order to determine how policymakers prioritize expenditures when public finances face fiscal pressures, it is better to use a modelling strategy highlighting the trade-offs between categories of expenditures, such as a compositional dependent variable analysis. This technique is used when a dataset has multiple dependent variables whose value fit between 0 and 1 and whose total sum equals to one. Hence, the dependent variable is a composition, similar to a percentage of the total. In general, linear regression implicitly assumes independence between budget categories and thus cannot adequately model trade-offs between them. The goal of the compositional analysis is not only to understand if the independent variable has an impact on one category, but also if a change to this category influences the other variables simultaneously. An equation-by-equation approach would analyze the effect of X on each category one after the other, but it would ignore that the individual components are likely to be negatively correlated (if the share of one budget category increases, the other should go down). In contrast, compositional dependent variable analysis focuses on the relative change in the proportion of a category relative to the other pieces of the compositional pie. Thus, compositional dependent variable models an explicit trade-off between budget categories which is very close to the reality of decision-makers allocating scarce resources who need to trade off different competing interests (Breunig and Busemeyer 2012; Lispmeyer et al. 2017). To my knowledge, no studies used this method to analyze budget composition in Canada.

Following common practice (Adolf et al. 2020; Philipps et al. 2016), I use the log transformation of the compositional variables to free the data of the constraint of summing to zero, making them unbounded and independent, so that conventional linear techniques can be used. Also,

I follow Tomz et al. (2002)'s advice and use seemingly unrelated regressions (SUR) in all models to take into account the negative correlation between individual components (if the share of one budget category increases, the other should go down). I use the *dynsimpie* package in Stata developed by Phillips et al. (2016) for compositional dependent variable analysis. *Dynsimpie* does a log transformation of the data, transforms the log variables into their real values and present graphical representations of the models based on simulations of a counterfactual shock in one of the measures of fiscal pressure at a chosen point in time. The simulations keep all the other independent variables and their sample mean (Philips, Rutherford, & Whitten, 2016).

To model temporal dynamics in a compositional dependent variable analysis, Philips et al. (2016) suggest using an error correction model. However, unit root tests (IPS and LLC) reveal that the compositional dependent variables are stationary around a trend, while error correction models perform better when time series contain a unit root and are cointegrated. Thus, I use a partial adjustment model, which includes the contemporaneous values of the covariates and a lagged dependent variable to model time dynamics. I also include an AR1 correction for serial correlation in the error term. A Hausman test suggests that province fixed effects are necessary. I follow Lipsmeyer et al. (2017) interaction strategy for compositional dependent variable and estimate the following equation:

$$Y_{kit} = \sum(\beta_0 Y_{k,i,t-1} + \beta_1 X_{it} + \psi_i + \tau)(\mathrm{P}) + \varepsilon_{kit}$$

For each log ratios Y_{kit}, the models specify an equation regressing Y_{kit} on its lagged value, a vector of covariates X_{it}, a set of province dummies ψ_i and a linear time trend parametrized by τ to control for the rising trend in health care expenditures and the downward trend in other expenditures. P is a dummy variable coded 1 or 0 for each of the three categories of government partisanship (right, left and centre). It is thus interacted with all the covariates. I estimate the system of K-1 equations jointly by seemingly unrelated regressions.

I include all covariates at time t, rather than at time t-1 because I assume that fiscal pressures and government partisanship will have an immediate effect on budget compositions. Still, I model dynamic effects by calculating a long run multiplier, which is the long-term effect of changes to the covariates on budget compositions over the following time periods, occurring through the influence of the lagged dependent variable. Long-term effects are calculated as $(\beta_1 X / 1 - \beta_0 Y_{kit-1})$, while short-

run effects are the coefficient of X. Still, to ensure that the results are not model dependent, I present alternative specifications using autoregressive distributed lag models (ADL) in the appendix, which do not alter the results. The ADL models use a lagged dependent variable, as well as the contemporaneous and lagged values of each covariates. I also used a jackknife technique by removing one province at the time from the dataset and rerunning the regressions; it did not modify the results. Unit root tests of the control variables reveal that all variables are stationary, except the two demographic variables. I thus use the first difference of these two variables to make them stationary in all models.

Empirical analysis of budget composition

I start by modelling the direct impact of government partisanship on expenditure composition without fiscal pressures to analyze partisan priorities in an unconstrained setting. Since result tables are difficult to interpret as they only present log ratios, I focus on graphical representations of the impact of a counterfactual shock on expenditure priorities. Figure 4.3 presents the impact of left, right and centrist governments on budget compositions. Right governments are associated with long-term decreases in social expenditures (-1.76%) relative to health (+0.05%) and education (+1.74%). The effects are expressed in percentage points. This involves that electing a right-wing government would decrease social expenditures in the long term in a province from for example, 15% to 13.24% of program expenditures. Left-wing governments reduce the proportion of expenditures allocated to education (-2.57%) and health (-0.98%) to fund social (+2.57%) and other spending (+0.93%). The effect of centrist governments on expenditure composition is not significant, suggesting that centrist government do not significantly change the status quo of expenditure composition.

Figure 4.3. Effect of left, right and centre governments on expenditure composition
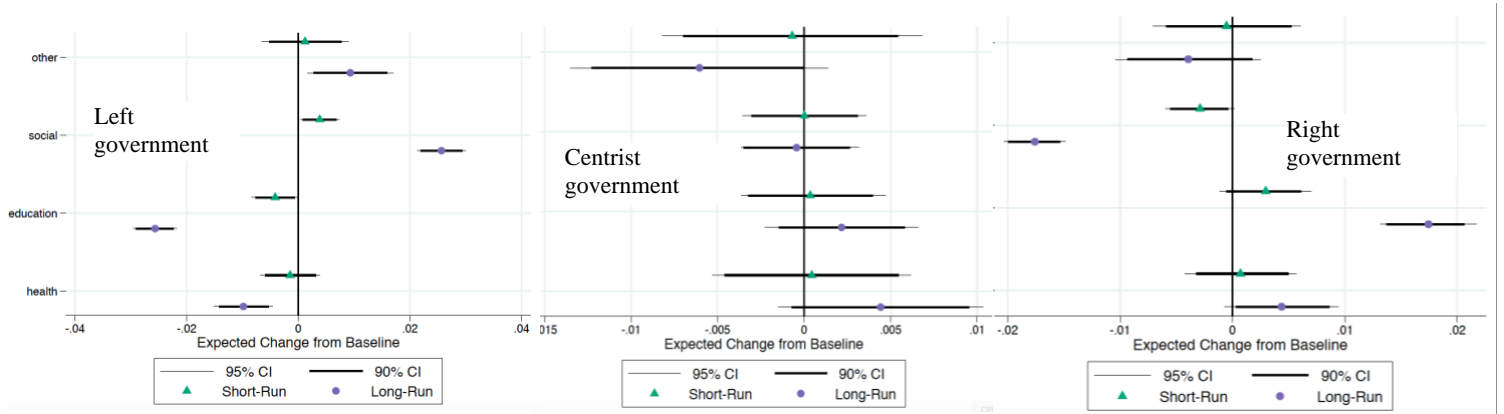
Some short-term effects are significant, as the left increase social spending by 0.4% (significant at the p=0.05), and cut education by the same amount (albeit only significant at the p=0.1 level), while right-wing governments decrease the share of social spending by 0.29% (p=0.1). Still, these short-term effects are substantively small in contrast to the long-term effects, revealing that the effect of government partisanship on policies takes time to unfold, as budgets are strongly path dependent.

Thus, there are thus very clear partisan differences in terms of expenditure priorities when fiscal pressures are not taken into account: left and right government diverge in the prioritization of social spending and education. This analysis of shares of spending is a good complement to previous studies focusing on levels of spending (Bodet 2013; Tellier 2005). Like in previous studies, we find that left governments increase social spending, but in contrast to these studies, left-wing governments are associated with smaller shares of health care expenditures. Like Kneebone and McKenzie (2001), I find that right-wing governments are associated with higher proportion of education expenditures.

I move to modelling the effect of fiscal pressures on budget composition, mediated by government partisanship. I present the simulations of the impact of an annual change of 1% of GDP in each of the two measures of fiscal pressures, in interaction with government partisanship, which

approximately corresponds to the standard deviation of an average annual change in each variable. Figure 4.4 shows the impact of a cut to federal transfers in interaction with government partisanship. In all three cases, reductions of federal transfers by 1% of GPD are associated with a decline in the proportion of other expenditures (0.67% for right governments, 1% for centrist governments and 2% for left governments), compensated by a rise in the proportion of health care spending of +1.18% for right-wing governments and of +.78% for centrist governments. Left-wing governments retrench other expenditures even more to preserve education expenditures (+1%), social spending (+0.61%) and health care (+0.48%, significant only at p=0.1). In contrast, social spending is reduced by 0.36 percentage points under right-wing government facing a shortage of federal transfers. Centrist governments prioritize education spending, whose proportion rises by 0.57 percentage points, and decrease social spending by 0.34% (only significant at p=0.1). In brief, when federal transfers are reduced "other" provincial government expenditures tend to absorb the budget reductions, while increases to health care are prioritized, regardless of government partisanship. The effect of government partisanship under fiscal pressures is limited to the choice between education and social spending.

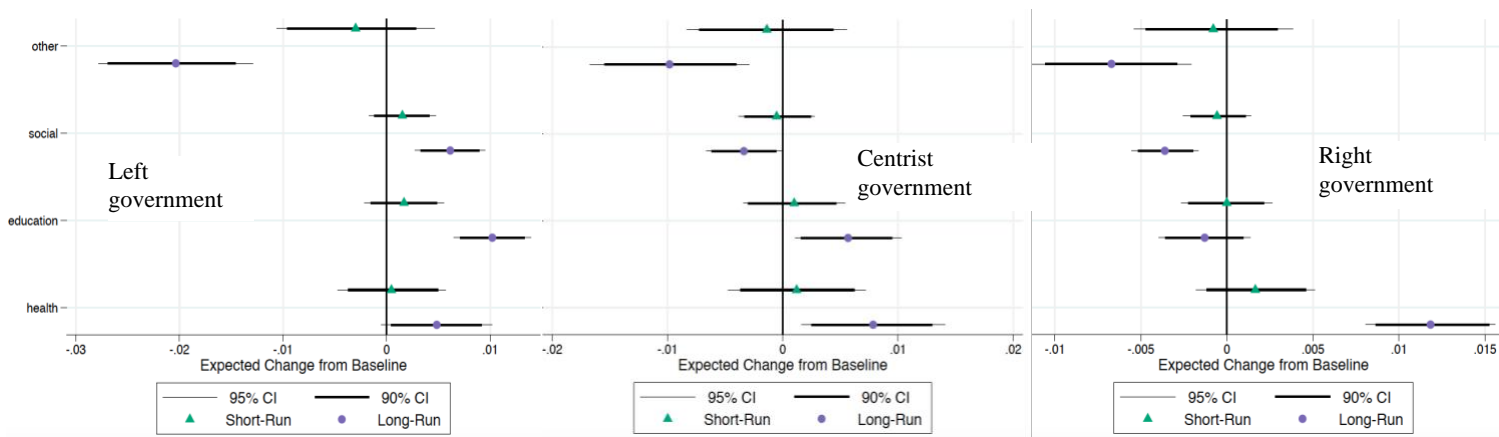**Figure 4.4. The impact of a cut to exogenous revenues, conditional on government partisanship.**

Figure 4.5 presents the impact of an increase of 1% of GDP interest payments. The pattern of expenditure prioritization under fiscal pressures is quite similar to figure 4.4: all parties cutback other expenditures to increase health care expenditures, except right-wing governments who do not deliver higher health care expenditures when interest payments increase. Left and centrist government do not differ in their expenditure choices: the two parties make cutbacks to other expenditures in order to increase health, education and social expenditures. Left governments reduce other expenditures (-4.58%) to increase the share of health care (+1.93%) and social expenditures (+2.24%). Once again, right-wing government decrease social expenditures (-1.18%), this time to increase education (+1.56%) rather than health care. Perhaps surprisingly, centrist government react to an increase in interest payments by decreasing education expenditures by 1%. Models combining both types of fiscal pressures into a single variable confirm that right-wing parties decrease social expenditures to fund education, while centrist parties prioritize education. These models are shown in the online appendix.

Figure 4.5. The impact of the economic pressure index on expenditure composition, conditional on government partisanship.
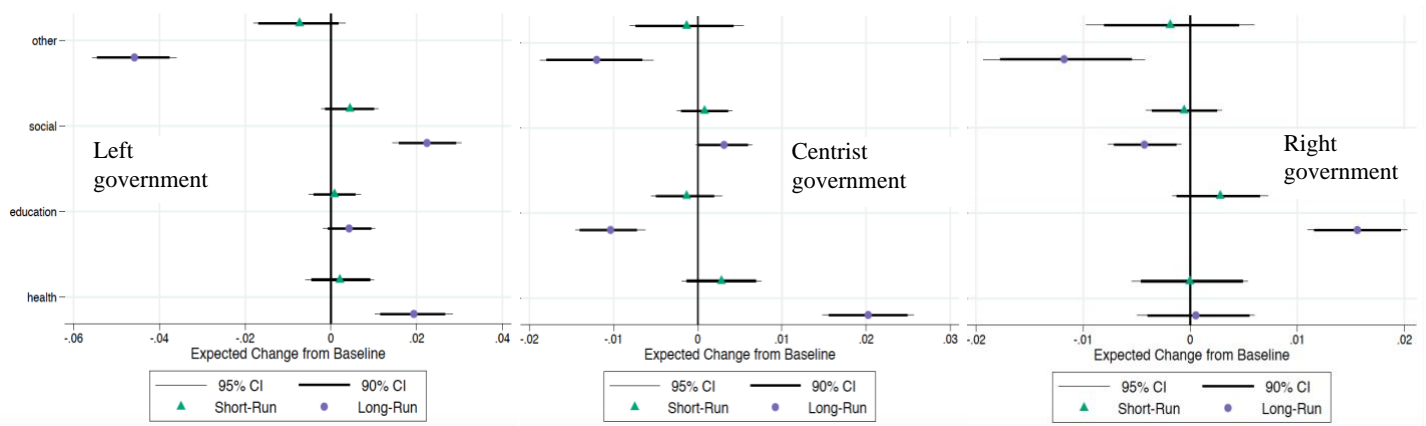
In brief, we can confidently reject the null of hypothesis 1, as other expenditures are crowded out by health care in situations of fiscal pressures. However, none of the short-term effects are

significant, as the impact of fiscal pressures on budget composition takes time to unfold. We cannot completely reject the null of hypothesis 2: while the analysis confirms that left-wing government prioritize social spending, the prioritization of education by right and centrist parties depends on which type of fiscal pressure is measured. Finally, we cannot reject the null of hypothesis 3, since partisanship has a small, albeit significant, effect on budget priorities despite fiscal pressures: left-wing parties consistently prioritize social spending, while right-wing parties decrease social spending in all models.

Discussion and conclusion.

The analysis reveals that fiscal pressures contribute to a rising proportion of health care spending relative to all other types of expenditures. As discussed in the theoretical section, health care is a life cycle risk against which most citizens want to be publicly insured, regardless of their income and ideological orientation. Moreover, aging and cost inflation tend to increase health care spending in Canada. It is thus very difficult for a government to reduce health-care spending to cope with fiscal pressures. The favoured area of retrenchment in Canadian provinces is "other" government expenditures, which comprises the legal-rational functions of the state (like the bureaucracy, the justice system, public safety and economic affairs) as well as more postmodern functions, like environmental protection and culture. Other expenditures are arguably less popular and less visible than health and to a lesser extent, social spending and education, which make them an easier target for cutbacks.

In future research, it would be interesting to analyze in more details which type of other expenditures are retrenched. This could help to explain why right wing governments deviate from the main pattern when facing increases of interest rate payments: if the right in interested in preserving expenditures related to "law and order" (Kneebone and McKenzie 2001), it cannot decrease other expenditures enough to protect both health care and education spending from the effects of fiscal pressures.

The study broadly confirms Lipsmeyer (2011) findings for the Canadian case: the effect of government partisanship on policy choices is stronger in good times than in hard times. However, instead of focusing on economic conditions, we analyzed the effect of variations in the fiscal room to maneuver. Government partisanship makes large differences when fiscal pressures are not taken into account: right-wing government decrease social expenditures to increase education, while left-wing

governments increase other and social spending by reducing the budgets of health care and education. When taking into account the impact of fiscal pressures, the effect of partisanship is more subtle. All governments react to fiscal pressures by prioritizing health care expenditures, to the detriment of other expenditures. However, left-wing governments prioritize social expenditures, while right-wing governments reduce them. Hence, these clear policy differences between parties lead us to reject a realignment model where the policy differences between parties disappeared over time. As previous studies in Canadian politics found for spending levels (Bodet 2013; Haddow 2014; Tellier 2005), the power resource model can adequately predict policy priorities, even under situations of fiscal pressures.

Several implications for comparative public policy can be drawn from these results. Since policies are path dependent and resistant to rapid change, researchers should calculate long run multipliers for their variable of interest or they risk losing precious information. Regarding partisan priorities, the prioritization of education by centrist and right government is not consistent across models; researchers should thus be cautious before assuming that non-left parties prioritize education. The politics of education seems highly context-dependent and very different from the politics of social spending. Finally, this article's inconsistent findings regarding centrist (Liberal) government reflect political science theories' underdevelopment concerning centrist parties' preferences and policy choices. Future research should develop the theorization of centrist parties' preferences, especially in situations where the centre face leftist contenders with low office aspirations, as in many Canadian provinces.

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