

## Organized Labour, Regional Political Bias and the Canadian Tariff Structure

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### Résumé de l'article

L'objectif principal de cet article est de tenter d'évaluer l'influence des syndicats, en tant que groupes de pression, sur la politique tarifaire canadienne. Étant donné que les syndicats, à tort ou à raison, ne sont pas la seule explication possible des écarts tarifaires, il est nécessaire de considérer les points de vue différents exprimés par divers auteurs. Les plus récents travaux sur le sujet sont ceux de Caves, de Saunders et de Helleiner. Caves en arrive à la conclusion que les écarts tarifaires peuvent s'expliquer par les mesures d'un gouvernement paternaliste agissant comme protecteur de petites entreprises inefficaces, employant une main-d'œuvre peu qualifiée et caractérisée par ce qu'il appelle, par euphémisme, « espoirs déçus ». Saunders ne trouve aucun fondement à cette hypothèse et estime que le lobbyisme fécond d'industries cartellisées en est la cause. Helleiner, sans preuve scientifique, soutient l'hypothèse que les syndicats et les sociétés multinationales sont des supports importants de la structure tarifaire. Une autre hypothèse, enfin, qui peut s'avérer plausible dans le contexte canadien, sous-entend que le gouvernement, afin d'accroître ses chances de réélection, édicte des mesures qui favorisent certains « groupes » dont l'appui politique est déterminant. L'un de ces « groupes », dont le soutien revêt un caractère essentiel, est constitué par le Canada central, c'est-à-dire le Québec et l'Ontario, principalement le Québec. Selon nous, il faut retenir pour notre appréciation quatre éléments : les syndicats, les sociétés multinationales, les « espoirs déçus » et les considérations régionales.

Une des conclusions fondamentales, c'est que le degré de syndicalisation ne semble pas avoir une valeur significative dans la détermination des mesures tarifaires, même s'il se peut que leur action politique puisse avoir un effet qu'il est impossible de prévoir ou d'isoler empiriquement. L'article conclut également que les firmes multinationales n'exercent pas d'influence significative. Finalement, les résultats de l'analyse permettent de retenir le rôle joué par les « espoirs déçus » et les considérations régionales, mais le nombre des informations n'est pas suffisant pour accorder plus d'importance aux unes qu'aux autres. De toute façon, la situation de l'activité économique et politique au Canada sous-entend que les considérations seraient une explication juste de la politique tarifaire canadienne. Cependant, cette dernière conclusion ne fait pas disparaître la possibilité que des groupes de pression régionaux puissent être actifs et qu'ils réussissent à promouvoir des mesures tarifaires avantageuses pour leurs membres.

# *Organized Labour, Regional Political Bias and the Canadian Tariff Structure*

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**and**  
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*The authors attempt to determine the impact of organized labour as pressure group on tariff differentials for a cross section sample of industries in Canadian secondary manufacturing.*

A question which comes up with some regularity is what influence does organized labour have on economic policy in Canada? While the question is particularly relevant if one believes that policy is the result of pressure from various interest groups, unfortunately, it is difficult to answer because, in most instances, the empirical evidence is largely impressionistic and hence unreliable. This is especially true when policy responses to group pressure take the form of tax exemptions, various types of subsidies, quotas, and sub-rosa non tariff barriers all of which are notoriously difficult to quantify. However, one exception may be the area of tariff policy. Here, not only is it possible to quantify the influence of pressure groups and thus get some statistical measure of their importance<sup>1</sup>, but, in addition, organized labour is purported to be a highly significant determinant of inter-industry tariff differentials<sup>2</sup>.

The principal object of this paper, therefore, is to attempt to determine, with the use of regression analysis, the impact of «organized labour as pressure group» on tariff differentials, for a cross section sample of industries in Canadian secondary manufacturing. However, while our focus is

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1 The methodology is to use economic variables as proxies for political variables and, by allowing political hypotheses to predict the signs of the economic variables in regression analyses, obtain some statistical estimate of the significance of these hypotheses. For examples, see: PINCUS (1975), CAVES (1976), HELLEINER (1977), and SAUNDERS (1980).

2 HELLEINER (1977 A, p. 325).

on labour, to avoid mis-specifying the test model, we must include alternative explanations of tariff differentials — whether pressure groups or otherwise — in our estimating equation.

The alternative pressure group hypotheses arise from the work of Caves, Helleiner and Saunders. All agree that there is a positive relationship between pressure group activity and tariff differentials, but all offer different and often conflicting explanations for this association. In Caves' discussion the benefits resulting from organization include both the possibility of obtaining rents from additional tariff protection and also the likelihood that the government will respond favourably to the policy of «those whose reasonable expectation, have been frustrated» (Caves, 1976, 288). Empirically, Caves finds that the type of group most successful in gaining protection is one which suffers from «disappointed expectations»: a euphemism describing industries composed of undiversified small firms suffering diseconomies of scale and employing low-skill and low-wage labour. These, however, are precisely those industries in which one would not expect to find effective pressure groups<sup>3</sup>. Therefore, for Caves' argument to hold, governments must behave as balancers of equity favouring the disadvantaged. But if they do behave in this way, the question then arises as to whether the protection gained is due to pressure group activity or simply to autonomous actions of «paternalist» government simply looking after the disadvantaged.

While Caves' argument is not totally implausible it is unconventional and has been empirically challenged by Saunders. He finds no support for the notion that the government acts out of equity consideration using an index of sellers concentration as his key explanatory variable. Although this variable is not statistically significant, its positive sign suggests, according to Saunders, that «concentration brings lobbying strength partly as a result of greater profits to fund lobbying activities» (Saunders, 1980, 343). This is the very antithesis of Caves' argument, although it does support the more conventional pressure group view.

Helleiner (1977A) also provides an alternative to Caves' mechanism by adding the influence of international political factors. He argues that, under GATT, tariff reductions are based on reciprocity. But, because underdeveloped countries have no bargaining power, developed countries

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<sup>3</sup> The characteristics of successful Canadian interest groups most frequently stressed are: a small number of firms, who possess cohesive, well-financed permanent organizations, with political access, some elements of elitist accommodation, and/or bureaucratic sponsorship (see, for example, PROSS (1975), PRESTHUS (1973), VAN LOON and WHITTINGTON (1976)). In fact the converse appears true for those industries characterized by «disappointed expectations».

like Canada will not make concessions in those industries — unskilled, labour intensive — in which the underdeveloped countries have a comparative advantage. If this hypothesis is correct, it would be expected to show up statistically over a period of GATT inspired tariff changes. Helleiner tested the hypothesis over the period 1961 to 1970 but the results did not confirm it<sup>4</sup>. However, he then argues that his overall results are consistent with the explanation «that labour and transnational enterprises have now become the two principal influences upon tariff structure in North America» (Helleiner, 1977A, 325). While this may or may not be true, unfortunately, Helleiner did not specify hypotheses concerning «labour» and «multinationals» which can be tested in a cross section context.

There are several non-pressure group hypotheses which may be relevant<sup>5</sup>. However, one which we feel is particularly *a propos* in the Canadian context, is what we can call the «regional political bias» proposition. The argument, broadly following Downs (1957), is that governments, wishing to maximize their chances of re-election, will initiate and maintain policies that favour «groups» whose political support is critical. Thus, there is no necessity to rely on group pressure being exerting in the conventional industry specific sense.

For instance, in Canada, given the political importance of Ontario and Québec, government action should result in policies which promote the interests of these provinces<sup>6</sup>. Additionally, since Québec is particularly important — traditionally the key to controlling the government of Canada has been winning Québec — it is understandable that Cabinet and Government caucus would be responsive to the effects of the tariff in that province, without the necessity of an interest group exerting industry specific pressure. Therefore, the tariff may be a result of a «regional political bias» mechanism.

Thus, there are four elements in our estimating equation: three representing pressure group hypotheses, organized labour, transnational

4 HELLEINER'S statistical results for tariff *changes* over 1961-70 were, to quote him, «inexplicably little-related to unskilled labour intensity» (1977A, 325).

5 In addition to pressure group hypotheses, CAVES also tested «Adding Machine» and «National Policy» hypotheses. The former is based on the proposition that governments wish to maximize chances of re-election and promote policies favoured by the largest number of geographically dispersed voters. The latter is based on the assumption that the government has a collective national preference for certain types of industrialization. We also tested the same hypotheses and did not find them statistically significant (see Jones and Laudadio (1982)).

6 Over 60 per cent of the total Canadian federal seats are in these two provinces. In 1980 with a Liberal majority of 148 seats, these provinces contributed 86.5 per cent of these seats. More significantly, since Confederation, to win a majority government it has been necessary to win Québec, and this province is «the key to Canadian politics» (Beck 1968, 420-421, 431)). See also CAIRNS (1968).

corporations, and disappointed expectations; and one representing the regional political bias hypothesis. Our major conclusions from empirically testing these hypotheses are: neither organized labour nor transnational appear significant determinants of tariff differentials; but the results are consistent with either the «disappointed expectations» or «regional bias» propositions. The statistical evidence that points to these conclusions is firm. However, while we have no difficulty in dismissing transnationals, we must be cautious with the respect to labour unions. The variety of channels through which labour unions attempt to exert pressure is probably not entirely captured by the use of quantitative methods. It is not inconceivable that part of the mechanism that gives significance to the «regional bias» hypothesis is in fact the lobbying activity of regional labour groups. Their influence, however, is not easily transferred into an all encompassing statistical index.

The remainder of this paper is an amplification of the rationale for these conclusions and is organized as follows: I, the model and testable hypotheses are outlined; II the empirical results are reported; and III, the conclusions are summarized.

## MODELS, MECHANISMS AND HYPOTHESES

The research design employs economic variables as proxies for political variables, and, by allowing political hypotheses to predict the sign of the economic variables, a quantitative estimate of the significance of these hypotheses is obtained. The data in our regression model are for a cross section of 56, 3 and 4 digit secondary manufacturing industries centered on 1966<sup>7</sup>. The test model — which is a variation on one employed by Pincus<sup>8</sup> — specifies that,

$$(1) \text{ TN} = \text{P}(\text{Q}, \text{Q}^2, \text{Q}/\text{NE}, \text{ID}, \text{IN}, \text{PR}, \text{NE}, \text{H}, \text{IL}, \text{GEOG}, \text{ONT}, \text{QUEB}, \text{AW}, \text{W}/\text{Q}, \text{RPR}, \text{U}, \text{F}/\text{Q})$$

<sup>7</sup> The word centred is used advisedly because unfortunately not all the data was available for the same year. For details see Table 1. The industry sample will be provided on request.

<sup>8</sup> We also tested a model based on Caves' original specification and the results are perfectly compatible with those reported below. See JONES and LAUDADIO (1982). The specification in equation (1) is more extensive than either Pincus or Caves.

**TABLE 1**  
**Variable Definitions and Data Sources**

<i>Variable</i>	<i>Definition and Source</i>
TN	nominal, output weighted, tariff, Source, Wilkinson and Norrie (1975, Table A-1)*
Q	output, tariff deflated shipments, scaled $10^{-3}$ , Source, Canada (1971) and <i>ibid.</i>
Q <sup>2</sup>	output <sup>2</sup> , Source, <i>ibid.</i>
Q/NE	«pressure», output/number of establishments, Source, <i>ibid.</i>
ID	average duty on inputs (input) (duty)/n, Source, Canada (1969) and Canada (1971).
IN	inverse of the number of dutiable inputs, scale $10^2$ (1/n) 100.
PR	proprietary income, profit + interest/(shipments)/(1 + (tariff/100), Source, Canada (1965) and Canada (1975).
NE	number of establishments, scaled $10^{-2}$ , Source, Canada (1971).
H	Herfindahl index of establishment concentration, Source, <i>ibid.</i> **
IL	index of industrial localization, Source, Martin (1976, Table D-5).
GEOG	percentage of industrial employees located outside Québec and Ontario 1961, Source, <i>ibid.</i> , Table D-5.**
QUEB	percentage of employees located outside Québec, 1961, Source, <i>ibid.</i> **
ONT	percentage of employees located outside Ontario, 1961, Source, <i>ibid.</i> **
AW	average wage per hour, Source, Canada (1973), Table 2).**
W/Q	ratio of total wages to shipments, Source, <i>ibid.</i> and Canada (1971).**
RPR	relative productivity, value added per worker in a U.S. industry/value added per worker in the Canadian counterpart, 1963, Source, Canada (1971A).**
U	unionization, percentage of employees covered by collective agreements, Source, Canada (1967, Table 17).***
F/Q	foreign ownership, the ratio of shipments by foreign controlled firms to total shipments, Source, Canada (1976).

\* Where tariffs had to be matched or aggregated to the 3 digit industry level, Wilkinson and Norrie (1975, B-1) and Canada (1969, B-1) were used; and where industries were aggregated, shipments were used as the weighting factor.

\*\* Where industries were aggregated, shipments 1965, Canada (1971) were used as weights.

\*\*\* Where industries were aggregated, Canadian employment 1965, Canada (1971) was used as the weighting factor.

The dependent variable (TN) is the nominal tariff<sup>9</sup> and the definitions of the independent variables are summarized in Table 1. Since the expected signs of the independent variables are determined by political hypotheses we can treat them as follows.

**(i) Organized Labour as Pressure Group (RPR, W/Q, AW, U)**

Organized labour is generally considered to be an important determinant of tariff policy (Walker (1972), Bergstrom (1974), Helleiner (1977)). However, there is considerable doubt regarding the direction in which this pressure is exerted and whether statistical indices can give a complete measure of the effectiveness of group pressure.

First, tariff protection is not uniformly perceived to be in the interest of all labour groups<sup>10</sup>; and second, it is not clear that index of unionization (in absolute or in relative terms) is necessarily an all-encompassing measure of union power since political activism (and success) may be a function of the dedication and commitment of the union leadership. Nevertheless, quantitative analysis is an important tool that can help us determine whether tariff protection occurs in response to union pressure. Whether it does, depends, presumably, on the extent to which the income and security of labour in particular industries is threatened by foreign competition. This element is represented by the variables RPR, W/Q and AW.

The theory of comparative costs suggests that the industries in which the threat to labour is greatest are those characterized by relative technological and/or cost inferiority. Taking the U.S. as representing efficient producers, the extent of an industry's technological inferiority can be represented by RPR. On a relative cost basis it is evident that Canadian labour costs in general are high and disproportionately higher for unskilled

9 «Nominal» tariffs are used because pressure groups will probably have most success influencing the level of tariffs in their own industry. If the group attempted to restrict tariffs in *other* industries (thus working on the «effective» tariff) it would undoubtedly run into significant opposition from a group in this *other* industry. Nevertheless, we also experimented with the effective rate but the results were not statistically significant (JONES and LAUDADIO (1982)).

10 An alternative way of predicting the attitude of labour would be to argue that, if we could gauge the attitude of a representative labour organization (like the Canadian Labour Congress (CLC)), and if we assume that this view represents the attitude of individual unions, then we can test the effectiveness of the political pressure of organized labour by the relationship between TN and U. While Helleiner (1977, p. 105) considers the AFL-CIO important in U.S. tariff determination our position is that, not only does the CLC lack a comparable degree of a power in Canada (KWAVNICK (1972)), but the above argument does not generate a *cross section* hypothesis. However, for what it is worth, the CLC position in the 1960s could be classified as pro free trade (CLC, 1971, pp. 18-19; 1967, p. 18; 1967A, p. 55).

labour. Thus, the larger labour's share in cost ( $W/Q$ ) and the less skilled the labour (the lower is  $AW$ ), the greater is the threat to the industry. Therefore, if the government responds to labour demands for protection from these industries, we expect the signs of  $RPR$  and  $W/Q$  to be positive and  $AW$  to be negative.

But, low skill and low wage workers are seldom organized into powerful unions. However, if weak labour organizations somehow obtain tariff protection there will be a negative relationship between  $TN$  and  $U$ . If this is borne out, then a union as a pressure group hypothesis, lacking statistical support, becomes considerably weaker. If it is not to be dismissed altogether, it must be rescued by consideration of political influences that cannot be measured statistically.

By way of contrast, the high skill and high wage earners, which characterize export oriented secondary manufacturing industry, are usually members of labour organizations. Therefore, to the extent labour in these industries is not interested in promoting high tariffs — either because it is not severely threatened by foreign competition so that the union will not actively attempt to exert pro-tariff pressure, or because labour fears that high tariffs will provoke foreign retaliation against its own industry which means that unions will exert industry specific anti-tariff pressure — then we would expect a negative relationship between  $TN$  and  $U$ . If this is correct the result would support the supposition that unions are effective pressure groups.

**(ii) Transnationals as Pressure Group ( $F/S$ )**

It is debatable whether the multinational firm favours an industry specific tariff or not. Therefore, if multinationals can exert effective political pressure, the sign of  $F/Q$  may be either positive or negative. Consider the following possibilities.

First, if we have a positive relationship between  $TN$  and  $F/Q$ , we can conclude that multinationals favour an industry specific tariff. This relationship would be consistent with the result of the analysis of multinational transfer pricing policy under alternative tax and tariff regimes by Horst (1971). Presumably, a profit maximizing producer would wish to practice price discrimination. A tariff creates the price difference necessary for discrimination. But, if the government collects the rents, there may be no advantage to the multi-national. If, however, the multinational could absorb part of the rent through its transfer pricing policy — by undervaluing its input prices — then on an industry basis the multinational may favour a positive tariff. Therefore, if the multinationals are particularly effective in pressing this case we would expect a positive sign for  $F/Q$ .



Second, the alternative possibility is a negative sign for  $F/Q$ . Suppose, for instance, the multinationals either cannot capture the rents, or the rents are small in relation to alternative cost savings. An example of the latter possibility in the Canada-U.S. context is the case where a multinational (producing in both the U.S. and Canada) would prefer to locate in the U.S. and take advantage of scale economies which the size of the Canadian market would not permit. If these cost savings are potentially greater than any rents which would accrue from the existence of the tariff, then the optimum tariff from the point of view of the multinational is a zero tariff. If the multinationals are particularly effective in pressing this case then the sign of  $F/Q$  will be negative.

The upshot is that, it is not clear on *a priori* grounds what the sign of  $F/Q$  will be.

(iii) **Disappointed Expectation as Pressure Group**  
( $W/Q$ ,  $AW$ ,  $RPR$ ,  $Pr$ ,  $H$ ,  $Q$ ,  $Q^2$ ,  $Q/NE$ )

Caves' «disappointed expectations» hypothesis predicts a positive relationship between «tariffs and an industry's exposure to economic adversity». Hence, the expected signs of the independent variables are as follows.

Since Caves predicts that those industries at a productivity disadvantage — employing «low-skilled and hence low-wage labour» (p. 288) — would be protected, a positive sign for  $W/Q$  and a negative sign for  $AW$  is anticipated. If this also reflects technological inferiority we would expect  $RPR$  to be positive. Caves' argument also implies that those industries in which «proprietary income» is low receive relatively greater protection. Thus, we anticipate that the sign of  $PR$  will be negative.

In addition, we expect the sign of  $H$  to be negative and  $Q$  to be ambiguous. The variable  $H$  is a measure of concentration and the negative sign merely means (following Caves) that those industries which are relatively unconcentrated receive the most protection. There is no clear prediction regarding the sign of  $Q$ . It can be argued that the greater the potential benefits (measured by  $Q$ ) from the imposition of a tariff the greater the amount and effectiveness of group pressure. This implies a positive sign for  $Q$ . However, the industries that need and demand tariff protection are either industries whose output is declining in the face of foreign competition, or small industries whose existence may be threatened by increased competition. This can lead to a negative sign for  $Q$ . On balance, while the latter hypothesis appears more plausible, we must declare  $Q$  as being ambiguous<sup>11</sup>.

<sup>11</sup> The variable  $Q^2$  is included to measure a possible «threshold» effect (PINCUS 1975, 763-764). The variable  $H$  is a measure of concentration and the negative sign merely means (following Caves) that those industries which are relatively unconcentrated receive the most protection. There is no clear prediction regarding the sign of  $Q$ . It can be argued that the greater the potential benefits (measured by  $Q$ ) from the imposition of a tariff the greater the amount and effectiveness of group pressure. This implies a positive sign for  $Q$ . However, the industries that need and demand tariff protection are either industries whose output is declining in the face of foreign competition, or small industries whose existence may be threatened by increased competition. This can lead to a negative sign for  $Q$ . On balance, while the latter hypothesis appears more plausible, we must declare  $Q$  as being ambiguous<sup>11</sup>.

**TABLE 2**  
**The Determination of Inter-Industry Tariffs**  
**in Canada: OLS Estimates for 56 Industries**

<i>Independent Variables</i>	<i>Equations</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
CONSTANT	18.812 (8.005) <sup>a</sup>	33.425 (8.859) <sup>a</sup>	19.889 (3.295) <sup>a</sup>	34.997 (7.315) <sup>a</sup>	25.728 (11.181) <sup>a</sup>	20.203 (3.181) <sup>a</sup>
Q	-15.070 (-2.830) <sup>a</sup>	-11.656 (2.229) <sup>b</sup>				
Q <sup>2</sup>	3.907 (1.346)	3.555 (1.286)				
Q/NE				-73.787 (-2.820) <sup>a</sup>		
ID	0.108 (3.874) <sup>a</sup>	0.065 (2.177) <sup>b</sup>		0.048 (1.574)		
IN	-1.095 (-3.070) <sup>a</sup>	-0.946 (-2.558) <sup>b</sup>		-0.716 (-1.853) <sup>c</sup>		
PR	-10.967 (-1.224)	-6.509 (-0.718)	-14.506 (-1.700) <sup>c</sup>	-15.840 (-1.728) <sup>c</sup>	-21.202 (-2.100) <sup>b</sup>	-14.437 (-1.673)
NE	-0.056 (-0.514)	-0.063 (-0.598)	-0.147 (-1.624)	-0.240 (-2.310) <sup>b</sup>	-0.193 (-1.799) <sup>c</sup>	-0.150 (-1.615)
H	-0.236 (-1.365)	-0.032 (-0.176)	-0.165 (-0.922)	0.158 (0.757)	-0.356 (-1.762) <sup>c</sup>	-0.160 (-0.875)
IL	10.982 (2.601) <sup>a</sup>					
GEOG		-0.078 (-1.993) <sup>c</sup>	-0.131 (-3.748) <sup>a</sup>		-0.146 (-3.495) <sup>a</sup>	-0.130 (-3.615) <sup>a</sup>
ONT				-0.020 (-0.450)		
QUEB				-0.214 (-4.490) <sup>a</sup>		
AW		-5.350 (-3.085) <sup>a</sup>	-6.611 (-4.007) <sup>a</sup>			-6.458 (-3.439) <sup>a</sup>
W/Q			31.190 (3.053) <sup>a</sup>			31.194 (3.022) <sup>a</sup>
RPR			0.047 (1.967) <sup>c</sup>			0.045 (1.752) <sup>c</sup>
U					-8.556 (-2.470) <sup>b</sup>	-0.665 (-0.176)
FQ		-0.034 (-1.408)				
$\overline{R^2}$	.572	.614	.587	.558	.400	.578
F	10.190 <sup>a</sup>	9.763 <sup>a</sup>	12.185 <sup>a</sup>	9.696 <sup>a</sup>	8.338 <sup>a</sup>	10.449 <sup>a</sup>

<sup>1</sup> The figures in parantheses are t values.

The significance of the regression coefficients was tested with a two tail t test.

The letters a, b, and c indicate significance at 99, 95, and 90 per cent respectively.

The significance of the coefficient of multiple determination was tested with an F test. The letter a indicates significance at 99 per cent.

**(iv) Regional Political Mechanism (NE, IL, GEOG, ONT, QUEB)**

The variables NE, IL and GEOG are alternative ways of measuring the geographical dispersion of political influence. The basic argument is that the greater the geographical dispersion of political influence the more ineffective this influence becomes. Hence with NE the supposition is that the larger the number of establishments the greater the probability that a plant will be located in a number of regions. This results in two different considerations: one, the greater the number of regions, the greater the dispersion of influence; two, the greater the number of regions, the more difficult and costly lobbying efforts are likely to become. Therefore, for both considerations we predict a negative sign for NE.

On the other hand, if the industry is geographically concentrated pressure groups can be more easily formed, the cost of communication is reduced and the benefits of concerted action more easily identified. Consequently, we anticipate a positive sign for IL.

The variable GEOG is a third alternative proxy for the geographical dispersion of political influence based on the distribution of industrial employment. If the regional political influence of central Canada (Ontario and Québec) is the key element in the Canadian system so that the government maximizes support by promoting policies favouring these provinces, then we expect GEOG to be negative. Additionally, we expect negative signs for ONT and QUEB (subsets of GEOG), and if, as we have argued, the position of Québec is particularly sensitive, we anticipate that the negative relationship for QUEB will be especially strong.

The results of testing the hypotheses developed in (i), (ii), (iii) and (iv) above are outlined below<sup>12</sup>.

## **THE EMPIRICAL RESULTS**

Table 2 shows the linear form OLS results from regressing TN on various combinations of the independent variables<sup>13</sup>. In terms of the four major political mechanisms the results can be summarized as follows.

<sup>12</sup> The variables ID and IN in equation (1) do not have any direct relevance for the above hypotheses. We expect (following PINCUS (1975, 764, 765)) that ID will be positive and IN negative because presumably it is easier to obtain protection in industries which have suffered from input tariffs.

<sup>13</sup> No correction for heteroskedasticity was necessary; the Box-Cox procedure indicated that the linear form was the most appropriate; and the zero order correlation matrix yielded only one extreme case of collinearity (Q and Q<sup>2</sup> .943) and one moderate case (GEOG and ONT .601).

First, as far as labour is concerned, the basic conclusion is that the results are largely inconsistent with the «organized labour as pressure group hypothesis. The negative U is compatible either with the hypothesis that unionized workers do not favour protection and are effective pressure groups; or that unskilled non-unionized labour is being protected and unions are not effective pressure groups. But, when AW, W/Q, and RPR are added the signs of these variables are consistent only with the latter proposition<sup>14</sup> (compare equations (5) and (6)).

However, given this conclusion, the basic political economy question remains: what is the political mechanism at work because unskilled labour is hardly a pressure group in the traditional sense. It is unlikely to be due to pressure from transnationals because F/Q is never significant. This leaves two possible answers: the first is that, since the results are not incompatible with the «disappointed expectations» hypothesis, this may be the pressure group at work; the second is that «regional bias» might favour protecting unskilled labour intensive industries and no pressure group explanation is required.

It may very well be that the «disappointed expectations» pressure group is the political mechanism whereby unskilled labour is protected. Certainly, the hypothesis is compatible with the results of Table 2: those industries characterized by low skill and low wage labour (AW and W/Q), technological inferiority (RPR), falling output and proprietorial income (Q and PR), and low concentration and dispersion (H and Q/NE), receive the most favourable tariff treatment.

But, it may also be the «regional bias» mechanism because this hypothesis is likewise consistent with the results of Table 2. The variables NE, IL and GEOG all have the correct signs and this regional bias is evident even in the presence of cost determining factors (compare the t values of GEOG in equations (5) and (6) after AW, W/Q and RPR have been added). Thus, GEOG is not merely a reflection of the historical circumstances which resulted in Central Canada (Ontario and Québec) playing host to the industries suffering from cost disadvantages. In addition, as we hypothesized, the federal government appears to be particularly sensitive to Québec.

<sup>14</sup> Again, compare the following specification — which is identical to equation (6) with U removed — with equation (6):

$$\begin{array}{rcccccc}
 \text{TN} = & 19.889\text{CON} - & 14.507\text{PR} - & .147\text{NE} - & .166\text{H} - & .132\text{GEOG} \\
 & (3.296)^a & (1.700)^c & (1.624) & (.922) & (3.748)^a \\
 - & 6.612\text{AW} + & 31.191\text{W/Q} + & .047\text{RPR} & \bar{R} = .587 & F = 12.185^a \\
 & (4.007)^a & (3.053)^a & (1.967)^c & & 
 \end{array}$$

## CONCLUSIONS

Three major conclusions seem *a propos*. First, organized labour does not appear to be a significant force in determining inter-industry differences in tariffs. The same can be said of multinationals.

Second, since the results are compatible with both «disappointed expectations» and «regional bias» mechanisms, we must, with all due deference to the existing literature, caution against explaining Canadian tariff differentials solely in terms of pressure group activity.

Third, unfortunately, given the state of the data, there is no way we can objectively select one mechanism over the other. The basic statistical problem is that we are drawing conclusions about the operation of two alternative political mechanisms, neither of which we can measure directly. Our research design involves relating political hypotheses (proxied by structural economic variables) to successful political effects (height of the tariff) without directly measuring the mechanism at work<sup>15</sup>. Should the sign of the structural variable be as predicted we infer that the mechanism is as assumed. If we conjecture alternative political mechanisms, we must differentiate between them by differentiating between structural variables. But, if this is not possible because of data or measurement problems, we must defer either to pure logic or to other types of evidence that is not inconsistent with the fundamental statistical evidence.

On these grounds we are inclined towards the «regional bias» explanation for two reasons: first it eliminates the need to rely heavily on the questionable assumption (the government as a «balancer of equities») necessary to get «disappointed expectations» to work; and, second, it is consistent with (and may encompass) the «pressure group» hypothesis. One can easily imagine, for example, that the strong tariff protection provided industries in Québec is, at least in part, the response to lobbying activities of Québec based unions. It would be strange, in fact, if the CSN and the FTQ did not attempt to exert some influence directed at protecting the jobs of their own members. Thus the «regional bias» explanation may merge with the «pressure group» explanation in providing a substantive understanding of tariff policy making in Canada.

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<sup>15</sup> For a review of the problem and options involved in using regression analysis to test political hypotheses see SALAMON and SIEGFRIED (1977).

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### ***Syndicats, considérations politiques régionales et mesures tarifaires***

L'objectif principal de cet article est de tenter d'évaluer l'influence des syndicats, en tant que groupes de pression, sur la politique tarifaire canadienne. Étant donné que les syndicats, à tort ou à raison, ne sont pas la seule explication possible des écarts tarifaires, il est nécessaire de considérer les points de vue différents exprimés par divers auteurs. Les plus récents travaux sur le sujet sont ceux de Caves, de Saunders et de Helleiner. Caves en arrive à la conclusion que les écarts tarifaires peuvent s'expliquer par les mesures d'un gouvernement paternaliste agissant comme protecteur de petites entreprises inefficaces, employant une main-d'oeuvre peu qualifiée et caractérisée par ce qu'il appelle, par euphémisme, «espoirs déçus». Saunders ne trouve aucun fondement à cette hypothèse et estime que le lobbyisme

fécond d'industries cartellisées en est la cause. Helleiner, sans preuve scientifique, soutient l'hypothèse que les syndicats et les sociétés multinationales sont des supports importants de la structure tarifaire. Une autre hypothèse, enfin, qui peut s'avérer plausible dans le contexte canadien, sous-entend que le gouvernement, afin d'accroître ses chances de réélection, édicte des mesures qui favorisent certains «groupes» dont l'appui politique est déterminant. L'un de ces «groupes», dont le soutien revêt un caractère essentiel, est constitué par le Canada central, c'est-à-dire le Québec et l'Ontario, principalement le Québec.

Selon nous, il faut retenir pour notre appréciation quatre éléments: les syndicats, les sociétés multinationales, les «espoirs déçus» et les considérations régionales.

Une des conclusions fondamentales, c'est que le degré de syndicalisation ne semble pas avoir une valeur significative dans la détermination des mesures tarifaires, même s'il se peut que leur action politique puisse avoir un effet qu'il est impossible de prévoir ou d'isoler empiriquement.

L'article conclut également que les firmes multinationales n'exercent pas d'influence significative. Finalement, les résultats de l'analyse permettent de retenir le rôle joué par les «espoirs déçus» et les considérations régionales, mais le nombre des informations n'est pas suffisant pour accorder plus d'importance aux unes qu'aux autres. De toute façon, la situation de l'activité économique et politique au Canada sous-entend que les considérations seraient une explication juste de la politique tarifaire canadienne. Cependant, cette dernière conclusion ne fait pas disparaître la possibilité que des groupes de pression régionaux puissent être actifs et qu'ils réussissent à promouvoir des mesures tarifaires avantageuses pour leurs membres.