

3. *The Varieties of Democratic Institutions*

Outline

3.1 *The Varieties of Democratic Institutions*

- *The Basics: Majoritarian vs. Consensus Democracies*
- *Extensions*
 - *Parliamentary vs. Presidential Democracies*
 - *Veto Player Theory*
- → *The insertion of party ideology and median voter theorem*

3.2 *The Policy Consequences of Democratic Institutions*

- *Monetary Policies*
- *Fiscal Policies*
 - *Size of fiscal spending*
 - *Composition of fiscal spending*
 - *Redistributive policies*

3.3 *The Implications for Openness*

- *Implications for monetary policy autonomy*
- *Implications for distribution and compensation*

3. The Varieties of Democratic Institutions

3.1 Varieties of Democratic Institutions

- *Majoritarian vs. Consensus Democracies*
 - **Electoral system** → *Majoritarian/disproportional vs. Proportional*
 - Party systems → *Two-party vs. Multi-party*
 - Executive power → *Cabinet concentration vs. Sharing (Coalition)*
 - Executive-legislative relations → *Dominance vs. Balance*
 - Interest groups → *Pluralism vs. Corporatism*
 - Central-local relations → *Unitary/Centralized vs. Federal/Decentralized*
 - Legislative structure → *Concentration/Unicameral vs. Division/Bicameral*
 - Constitution
 - Amendment → *Flexible vs. Rigid*
 - Judicial review → *Absent vs. Present*
 - Central bank → *Dependence vs. Independence*
- *The Historical Sources of Democratic Variance*
 - *The Historical Sources*
 - *The Westminster Model (First Wave) and its Alternative*
 - *The Third Wave and the prevalence of mixed electoral/government systems*
 - *The Geographical Distribution*

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3.2 *The Policy Consequences of Democratic Institutions*

- *Institutional Analysis: Basics*
 - *Common pool resources and economic externalities*
 - *Gridlock or consensus?*
- *Institutional Analysis: Extensions = Representation*
 - *Presidential vs. Parliamentary Democracies*
 - *The issue of electoral accountability and electoral survival (→ next week)*
 - *Presidential systems = accountability trumps collective action problems*
 - *Veto Player Theory*
 - *The issue of ideology and policy preferences (→ next week)*
 - *The larger the number of veto players, the stronger the status quo*
 - *Electoral Representativeness*
 - *Majoritarian vs. proportional representation*
 - *Proportional representation is more representative*

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3.2 The Policy Consequences of Democratic Institutions

- *Veto Player Theory*

- *The issue of ideology and policy preferences*
- *The larger the number of veto players, the stronger*

PROPOSITION 1: As the number of players who are required to agree for a movement of the status quo increases, the winset of the status quo does not increase (i.e., policy stability does not decrease).

PROPOSITION 2: As the distance of players who are required to agree for a movement of the status quo increases along the same line, the winset of the status quo does not increase (i.e., policy stability increases).

PROPOSITION 3: As the size of the yolk of collective players who are required to agree for a movement of the status quo increases, the area that includes the winset of the status quo increases (i.e., policy stability decreases).

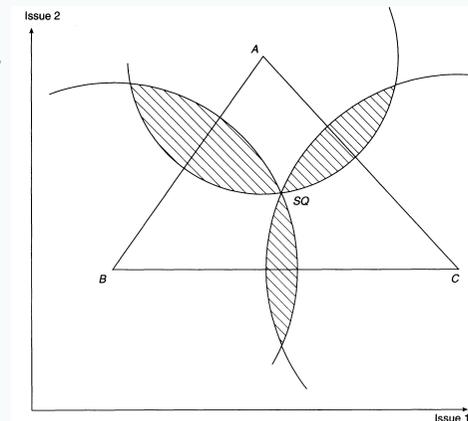


Fig. 1. Winset of status quo with three players in two dimensions

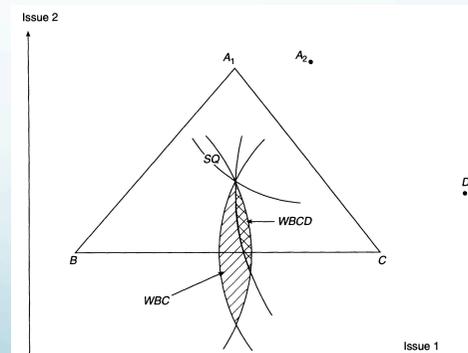


Fig. 2. Change of status quo with three individual decision makers

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3.2 The Policy Consequences of Democratic Institutions

- *Basic Institutional Analysis*
 - *Electoral systems*
 - *Government coalitions*
 - *Overall size of government*

	ELECTORAL RULES		FORM OF GOVERNMENT	
	Majoritarian vs. Proportional		Presidential vs. Parliamentary	
	Theory	Data	Theory	Data
Overall size of government	(-)	(-)	(-)	(-)
Broad vs. narrow programs	(-)	(-)	(-)	0/(-)
Rent extraction	(+)/(-)	(+)/(-)	(-)	0
Government deficits	(-)/?	(-)	?	0
Electoral cycles	(+)/?	(+)/(-)	?	(+)/(-)

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3.2 The Policy Consequences of Democratic Institutions

- *Presidential vs. Parliamentary Democracies*
 - *Electoral accountability and survival*
 - *Presidential systems*
 - *Accountability trumps collective action*

TABLE 1. Determinants of Central Government Budget Balances: Economic Model

Dependent Variable: Central Government Budget Balances (% GDP)

	OLS	Country Fixed Effects	Population Averaged Clustered by Country
Lagged Budget Balance	0.6604 <i>0.000^a</i>	0.4984 <i>0.000</i>	0.5950 <i>0.000</i>
Real GDP Growth	0.1019 <i>0.000</i>	0.1326 <i>0.000</i>	0.1142 <i>0.000</i>
Interest Payments	-0.0384 <i>0.000</i>	-0.0401 <i>0.000</i>	-0.0365 <i>0.000</i>
Dependent Population	-0.0747 <i>0.000</i>	-0.1989 <i>0.000</i>	-0.0890 <i>0.000</i>
War	-0.3173 <i>0.444</i>	-0.2063 <i>0.646</i>	-0.3594 <i>0.248</i>
Latin America	0.5902 <i>0.009</i>		0.6126 <i>0.016</i>
OECD	-0.3458 <i>0.078</i>		-0.5211 <i>0.057</i>
Constant	1.8692 <i>0.013</i>	5.8736 <i>0.001</i>	2.2323 <i>0.026</i>
N	1389	1389	1389
R-sq within		0.3491	
R-sq between		0.6379	
R-sq overall	0.5769	0.5161	
Wald chi ²			481.16
Prob > chi ²			0.000

^a Rows in *italics* are p-values. See Appendix 1 for definition of variables.

TABLE 2. Determinants of Budget Balances: Impact of Government Coalition Status, Minority Status, and Form of Government

Dependent Variable: Central Government Budget Balance (% GDP)

	(1)	(2)	(3)	(4)	(5)
β_0 . Constant	2.196 <i>0.030</i>	2.5770 <i>0.014</i>	2.2534 <i>0.033</i>	0.7197 <i>0.776</i>	1.1503 <i>0.195</i>
β_1 . Coalition Government	-0.1655 <i>0.329</i>	-0.4782 <i>0.067</i>	-0.0406 <i>0.627</i>	0.3147 <i>0.603</i>	-0.0772 <i>0.675</i>
β_2 . Minority Government	0.3943 <i>0.024</i>	0.1232 <i>0.470</i>	0.3627 <i>0.284</i>		0.2971 <i>0.101</i>
β_3 . Presidential System	0.7458 <i>0.037</i>	0.5876 <i>0.144</i>	0.6715 <i>0.176</i>		0.8956 <i>0.002</i>
β_4 . Coalition \times Minority		0.5096 <i>0.277</i>	0.0159 <i>0.893</i>		
β_5 . Coalition \times Presidential		0.4017 <i>0.810</i>	0.0445 <i>0.812</i>		
β_6 . Minority \times Presidential		0.0726 <i>0.150</i>	-1.3247 <i>0.183</i>		
β_7 . Coalition \times Minority \times Presidential		0.7436 <i>0.660</i>	1.1160 <i>0.133</i>		
β_8 . Minority Government in Minority Situations				0.8967 <i>0.146</i>	
β_9 . Divided Government				0.0032 <i>0.993</i>	
N	1,340	1,340	1,336	380	1,257
Wald chi ²	676.53	939.78	919.11	19960.27	0.5707
Prob > chi ²	0.000	0.000	0.000	0.000	0.000

Recovering the effect of presidentialism, coalition, and minority governments from model (2)

Type of government	Coefficients	Effect on Budget Balance	Standard Error	Z	Prob > Z
Coalition	$\beta_1 + \beta_4 + \beta_5 + \beta_7$	1.1767	0.8136	1.45	0.148
Minority	$\beta_2 + \beta_4 + \beta_6 + \beta_7$	1.4490	0.9189	1.58	0.115
Presidential	$\beta_3 + \beta_5 + \beta_6 + \beta_7$	1.8055	0.9366	1.93	0.054
Coalition in Parliamentary	$\beta_1 + \beta_4$	0.0314	0.3905	0.08	0.936
Coalition in Presidential	$\beta_5 + \beta_7$	1.1453	0.8893	1.29	0.198
Minority in Parliamentary	$\beta_2 + \beta_4$	0.6329	0.3304	1.92	0.055
Minority in Presidential	$\beta_6 + \beta_7$	0.8162	0.9701	0.84	0.400

Note: All models included the same variables as the ones in Table 1. The coalition variable in model 2 is a dummy coded 1 when the government contains two or more parties; *coalition variable in model 3 is the number of parties in government*. Model 4 includes only the cases of presidential democracy. Model 5 is the second equation in a two-stage least-square model; the first equation has presidentialism as the dependent variable and the following as independent variables: real per capita income, 1995 prices; square of real per capita income, the number of other democracies in the world, the number of past transitions to dictatorship, and dummy variables for when the current democracy follows a military dictatorship, for when the country is located in Latin America, and for when the country is an ex-British colony. Complete results can be obtained from the author's Web page. See Appendix 1 for variable definitions and data sources. All models are panel estimation, population-averaged models with robust standard errors. Rows in *italics* are p-values.

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3.2 The Policy Consequences of Democratic Institutions

- *Electoral systems and Veto Players*
 - *Spending cycles*
 - *Common wisdom = competition*
 - *Spending Items*
 - *Proportional = welfare*
 - *SMD = district-specific*
 - *Mitigated by veto players*
 - *Novelty*
 - *The integration of electoral system theory with veto player theory*

TABLE 2 Estimation Results for Social Welfare Spending Cycles

	Model 1: Institution-free Cycles	Model 2: Institutionally Conditioned Cycles
SWS _{t-1}	-0.033*** [0.011]	-0.031*** [0.012]
ΔELE	-0.210 [0.191]	-0.199 [0.197]
ELE _{t-1}	-0.145 [0.287]	0.980* [0.545]
SMD _{t-1}		0.782*** [0.237]
SMD × ELE _{t-1}		-1.321*** [0.431]
VP _{t-1}		0.415* [0.228]
VP × ELE _{t-1}		-0.986* [0.505]
ΔPOSIT	0.163 [0.126]	0.133 [0.131]
POSIT _{t-1}	0.156* [0.089]	0.122 [0.093]
ΔUE	0.180* [0.092]	0.156* [0.094]
UE _{t-1}	-0.087*** [0.033]	-0.101*** [0.035]
ΔPOP1565	0.231 [0.280]	0.332 [0.295]
POP1565 _{t-1}	0.045* [0.024]	0.060** [0.025]
ΔINF	-0.045*** [0.017]	-0.051*** [0.017]
INF _{t-1}	-0.033*** [0.012]	-0.034*** [0.013]
ΔlnCGDP	0.335 [0.883]	0.115 [0.898]
lnCGDP _{t-1}	0.302** [0.136]	0.286* [0.147]
Constant	-2.225 [1.984]	-3.052 [2.029]
N	551	547

Notes: The dependent variable = ΔSWS. Panel-corrected standard errors in parentheses.
***p < 0.01; **p < 0.05; *p < 0.1. All tests are two-tailed.

TABLE 3 Estimation Results for District-Specific Spending Cycles

	Model 3: Institution-free Cycles	Model 4: Institutionally Conditioned Cycles
DSS _{t-1}	-0.051*** [0.014]	-0.051*** [0.013]
ΔELE	0.221 [0.175]	0.206 [0.174]
ELE _{t-1}	0.263 [0.269]	0.875** [0.354]
PR _{t-1}		0.078 [0.212]
PR × ELE _{t-1}		-0.782*** [0.299]
VP _{t-1}		0.014 [0.178]
VP × ELE _{t-1}		-0.225 [0.382]
ΔlnED	-0.282 [0.362]	-0.255 [0.363]
lnED _{t-1}	-0.029 [0.031]	-0.065 [0.051]
ΔPOSIT	0.051 [0.098]	0.055 [0.100]
POSIT _{t-1}	-0.006 [0.057]	-0.008 [0.061]
ΔINF	0.039 [0.028]	0.042 [0.028]
INF _{t-1}	0.024 [0.019]	0.024 [0.020]
ΔlnCGDP	0.488 [0.661]	0.529 [0.661]
lnCGDP _{t-1}	0.079 [0.143]	0.098 [0.139]
Constant	-0.512 [1.436]	-0.589 [1.423]
N	551	547

Notes: The dependent variable = ΔDSS. Panel-corrected standard errors in parentheses.
***p < 0.01; **p < 0.05; *p < 0.1. All tests are two-tailed.

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3.2 The Policy Consequences of Democratic Institutions

- *Electoral System and Redistribution*
 - *Basics: the degree of redistribution*
 - *median voter = median income*
 - *The Theory*
 - *Majoritarian → two party system → Median voter sides with the right party (right party dominance) → less redistribution*
 - *Proportional → multi party system → median voters coalesces with left parties (left party dominance) → more distribution*
 - *The Novelty*
 - *The median voter's preferences cannot be realized*
 - *The addition of ideology and the median voter theorem*

TABLE 2. Electoral System and the Links With Party System and Government Formation

	PR	Majoritarian
<i>Parties</i>	<i>L, M, H</i>	<i>LM, MH</i>
<i>Party decision making</i>	Representative	Leadership
<i>Platform commitment</i>	Not problematic	Problematic
<i>Government</i>	Coalition of parties	Party as coalition

TABLE 6. Electoral System and the Number of Years With Governments Further to the Left or to the Right Than the Median Legislator (1945–98)

		Government Partisanship		Proportion of Right Governments
		Left	Right	
Electoral System	Proportional	291 (9)	171 (0)	0.37
	Majoritarian	116 (1)	226 (7)	

Note: Excludes governments coded as centrist on the Castles–Mair (1994) scale.

TABLE 5. Regression Results for Reduction in Inequality (Standard Errors in Parentheses)

	(1)	(2)	(3)
Inequality	-16.75*** (5.68)	13.17 (9.36)	12.48 (8.96)
Political-institutional variables			
Government partisanship (right)	—	-2.38*** (0.73)	—
Government partisanship relative to median legislator	—	—	-2.93*** (0.75)
Voter turnout	—	0.01 (0.10)	-0.06 (0.10)
Unionization	—	0.16* (0.09)	0.15* (0.09)
Number of veto points	—	-1.57** (0.62)	-1.79*** (0.59)
Electoral system (PR)	—	5.00** (2.15)	4.44** (2.06)
Controls			
Per capita income	-0.001*** (0.00)	-0.001 (0.00)	-0.001 (0.000)
Female labor force participation	0.73*** (0.11)	0.36* (0.20)	0.45** (0.20)
Unemployment	0.81*** (0.27)	0.99*** (0.27)	1.08*** (0.26)
<i>p</i>	.4	.7	.7
<i>R</i> -squared	0.648	0.746	0.765
<i>N</i>	47	47	47

Note: Significance levels: *** < .01; ** < .05; * < .10 (two-tailed tests). All independent variables are measures of the cumulative effect of these variables between observations on the dependent variable. See regression equation and text for details.

3. The Varieties of Democratic Institutions

3.2 The Policy Consequences of Democratic Institutions

- Median Voter and Redistribution
 - The theory
 - Policy represents preferences of the median voter
 - The finding
 - Electoral system does not distort preferences

H1: Controlling for stable and changing social and economic conditions, the left-right preferences of the median voter significantly affect the equilibrium level of redistributive welfare spending.

H2: Controlling for stable and changing social and economic conditions, the left-right preferences of the government significantly affect the short-term and equilibrium levels of redistributive welfare spending.

H3: Controlling for stable and changing social and economic conditions, introducing a control for the left-right position of the government will account for the median voter-spending connection.

H4: Election Rules, Voters and Welfare Spending.

H4a: Ideological preferences of the median voters are more accurately reflected in legislatures and governments under PR than under SMD.

H4b: Because of the more accurate ideological correspondence of governments, the preferences of the median voter will have greater impact on redistributive welfare spending under PR than under SMD.

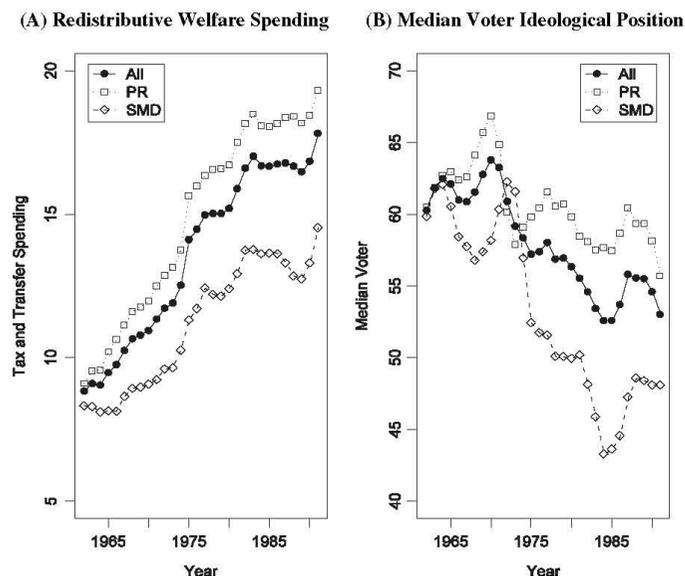


TABLE 3 Median Voter and Spending in SMD/PR Electoral Systems

	Model 6		Model 7		Model 8	
	SMD	PR	SMD	PR	SMD	PR
Constant	-9.524 (3.395)	-8.967 (3.189)	-3.903 (1.940)	-3.607 (1.826)	-3.716 (1.958)	-3.435 (1.842)
Median Voter						
short-term effects:						
ΔMedian voter	0.008 (0.008)	0.000 (0.006)	0.010 (0.008)	-0.001 (0.006)	0.007 (0.009)	-0.004 (0.007)
long-term effects:						
-Median Voter _{t-1} / Tax-and-Transfer _{t-1}	0.045 (0.046)	0.064 (0.038)	0.150 (0.062)	0.136 (0.044)	0.139 (0.066)	0.103 (0.052)
Government						
short-term effects:						
ΔGovernment _t					0.003 (0.003)	0.004 (0.003)
long-term effects:						
-Government _{t-1} / Tax-and-Transfer _{t-1}					0.010 (0.031)	0.037 (0.037)
Number of Cases (d.f.)	501(455)		501(466)		501(461)	
Adjusted R ²	0.5587		0.5443		0.5427	
Hausman Test (Model 6 vs. 7)			χ ² _[34] = 7.02 (1.000)			

Note: Only the coefficients of theoretical interest are reported in the table. The results of full models are reported in Table A3 in the online Appendix. Panel corrected standard errors are in parentheses. The coefficient estimates in **Bold** indicate statistical significance at $p < .05$ in two-tailed tests. Model 6 includes all country dummy variables except for the US (baseline), Ireland, and Norway. These variables are excluded to avoid perfect collinearity. Model 7 and 8 includes three country dummy variables for France, Belgium, and the Netherlands.

3. *The Varieties of Democratic Institutions*

3.3 *The Implications for Openness*

- *The Implications for Openness*
 - *Implications for monetary policy*
 - *Exchange rate regimes and monetary policy autonomy*
 - *Implications for distribution and compensation*