The Financial Crises of the 21st Century

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Multiparty Government and Economic Policy-Making

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‘Strong’ vs. ‘weak’ governments

- Generally agreed goal: Stable and effective government
- Political organization of cabinet government
- Traditional view (Lowell 1896; Bryce 1921):
  - Single-party majority cabinets = strong
  - Coalition cabinets = weak
  - Minority cabinets = weak

  ➔ Cabinet survival, regime stability (France III, France IV, Weimar, …)

More recent concerns

➔Economic efficiency: growth rates, budget deficits, high public debt

- Coalitions produce policy stalemate (Sartori)
- Coalitions require costly compromise (Kreisky)

In more theoretical terms

- Veto-player deadlock (Tsebelis)
- Common-pool problem (Hallerberg & von Hagen)

Relevant research includes …

- Countries with only one veto-player enact more sweeping tax reforms (Hallerberg & Basinger 1998)
- Privatization delayed in countries with many relevant parties (Bortolotti & Pinotti 2008)
- Delay in economic reforms – Altesina and Drazen's (1991) 'war of attrition' model

and ...

- PR electoral systems weaken clarity of responsibility → poor performance (Persson & Tabellini 2006)
- Coalition governments → increase government spending & higher debt (Bawn & Rosenbluth 2006, de Haan et al. 2012)

Communalities of these approaches

- Theoretically: Stylized pictures of coalition governance
  - Always veto-players
  - Ministerial government
- Empirically: Comparisons of *outcomes* (rather than *outputs*) under theorized conditions

Our project

- Take some steps towards a more realistic assessment of the capacities of different types of government by
  - Paying attention to institutions of coalition governance mechanisms
  - Looking at actual government outputs
- Claim: Coalitions can mitigate problems of agency loss and under-performance by mechanisms of coalition governance
- We present preliminary results

Coalition governance mechanisms 1

- Ex ante (at formation stage): Comprehensive coalition agreements
  - Sufficient amount of detail (on contested issues)
  - Public
  - Avoid different expectations, interpretations and feelings of being short-changed
  - Avoid intra-party problems from different expectations – big bargain
  - Establish Normative/reputational concern

Coalition governance mechanisms 2

- Ex post (in office): Mechanisms of mutual control and contract enforcement
  - Ministerial shadowing (watchdog junior ministers, committees, …)
  - Coalition committees (central authority – no <u>single</u> office holder enjoys trust of all cabinet parties)

Context

- SFB 884 (Mannheim) Political Economy of Reforms
- On-going data collection on economic reforms
  - EIU Reports 1979–
  - OECD Country Reports
  - Cross-validation with sectoral data collections
- Preliminary analyses with existing (more limited) data sets

Hypotheses: Coalition agreements

- H1: In the presence of comprehensive coalition agreement, the impact of the number of governing parties on <u>government spending</u> is reduced
- H2: In the presence of comprehensive coalition agreement, the impact of the number of governing parties on <u>government reform capacity</u> is reduced

Data

- Government spending (Bawn & Rosenbluth 2006)
  - 17 Western European countries 1970–1998
  - Political variables, including number of government parties and dummy on comprehensive coalition agreements
- Major economic reforms in 5 key policy areas (Duval 2008)
  - 5 key areas: Unemployment compensation, labour taxation, employment protection, product market regulation, retirement
  - 21 OECD countries 1985–2003

➔Unit of analysis: country-year

➔Constraints from data availability (short time series, few major reforms)

Analyses

- Government spending: OLS regressions with panel corrected standard errors
- Economic reform: Time series logistic regressions with random effects

Results: Government spending

- Change in number of cabinet parties (rather than absolute number of cabinet parties) → Change in government spending in predicted direction
- Comprehensive coalition agreements:
  - Direction: Predicted dampening effect on government spending
  - Effect size: Just not statistically significant but substantially meaningful – adding one party: +0.7 % GDP spending (without comprehensive coalition agreement) compared to +0.24 % (with comprehensive coalition agreement)

Results: Economic reforms

- More parties → Fewer reforms (but not statistically significant)
- Right-of-centre majority in cabinet → More reforms (sign.)
- Comprehensive agreements → More reforms (sign.)

Conclusion

- Coalition governments tend to be less effective than single-party governments
- Detrimental effects of multi-party government can be considerably reduced by clever institutional design
- Results are preliminary and suffer from data constraints – but certainly justify our efforts at collecting better data to test the theorized relationships