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Norman Schofield & Gonzalo Caballero (Eds.), *The Political Economy of Governance: Institutions, Political Performance and Elections*. Springer, 2015, 393 pp. \$110 Hardcover.

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Abstract. This edited conference volume is another from Springer on the *Studies in Political Economy* under the editorship of Prof. Norman Schofield, the Dr. William Taussig Professor of Political Economy Professor, Department of Political Science at Washington University. Political Economy is a fast growing field that uses the logic of economics to study issues pertaining to politics and governance and of which Prof. Schofield has been one the most prolific contributors over the last four decades. This volume brings together the papers presented at the *Political Economy of Governance, Institutions and Elections* workshop that took place in Baiona, Spain in April 2014. Political Economy is a vast and growing field as such this volume is only representative of the many issues and the modelling techniques—both theoretical and empirical—used to address them. The topics and issues addressed in this volume span a great variety of subjects covering—as the title indicates—issues dealing with governance, institutions and elections. The chapters in this volume are not only innovative, but they challenge and engage the reader into thinking more deeply about the issues addressed. One of the major characteristic of this volume is that most papers directly or indirectly contest the existing body of knowledge by either providing alternatives ways of thinking about a problem not addressed in the main stream literature or by studying issues that have up to know been ignored in the literature. This review is organized as follows. Section 1 gives an overview of how institutions work or change over time within a country; Section 2, those dealing with different aspects of democracy and Section 3 those dealing with the workings of elections. Concluding comments are given in Section 4.

Keywords. Political economy, Institutions, Democracy, Elections.

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1. Institutions

Institutions are crucial to the workings of any political system, be it a presidential or parliamentary democracy, an absolute dictator who governs with a close elite or in anocracies—or partial democracies—those were the autocrat governs alongside a legislature and exerts undue influence in elections and in the legislature.

As Williamson (2000, 575) wrote we are “still very ignorant about institutions” mainly because institutions are very complex entities. The New Institutional

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Economic (NIE) literature that has emerged since then and to which the chapters in this volume contribute, aims at increasing our understanding of the workings of institutions across different political systems by examining the incentives institutions give economic and political decision makers—governments, parties, voters, firms and interest groups. Seven chapters' study the evolution of institutions in different countries over time and under different political regimes. The general themes include the effect of historical institutions on present institutions; the influence institutions have on the interactions between different political and economic actors; whether the judiciary is independent of the government; and the determinants of institutional quality across countries.

A common theme among three of the chapters dealing with institutions is the persistent effect that past institutions have on the current political and economic agents today and how past institutions shape present day institutions. Peisakhin examines the cultural legacy that the Russian and Austrian institutions have on the political division in present day Ukraine, Soto studies the cultural legacy of institutions on regional inequality, and Caballero and Álvarez-Díaz survey the evolution of institutions in Spain over the last 75 years.

In "Cultural Legacies: Persistence and Transmission" Peisakhin argues that even though institutions evolve over time, the effect of institutions that disappeared long ago leave a cultural legacy that affects the working of institutions for generations to come. To make his point he uses a natural experiment that occurred when the Austrian and Russian empires split the relatively homogeneous Ukrainian population in a particular area. Using regressions analysis, he finds evidence that current political divisions in the Ukrainian population can be traced back to this split. Using survey data collected on families that remained in "homogeneous" communities, he finds that current political views and divisions are highly correlated with the socio-political and cultural identities that were transmitted within these families over several generations.

In his "The Historical Origins of Regional Economic Inequality in Spain: The Cultural Legacy of Political Institutions," Soto uses the well-known argument that better economic performance is associated with cultural traits—such as generalized trust, orientation toward political issues, associative participation, attitudes toward individual independence—to argue that these traits are not only highly persistent over time but are also shaped by political experiences in the distant past. He uses two historical political features that exhibit regionally variation across Spain: the political institutions that prevailed in the Early Modern Age that imposed political constraints on the executive from 1600 to 1850 and the level of local autonomy in the High Middle Ages, in particular, in the formation process of the local legal order between the eleventh and fifteenth centuries. Using regression analysis, he finds that these two historical political institutions have a substantial effect on current regional economic distribution even after controlling for geographic and human capital factors.

Caballero and Álvarez-Díaz document the institutional changes that took place from 1939—when General Franco took over the reins of power and instituted himself as a dictator after the Spanish civil war—to present day in their chapter on that "Institutional Change in Spain from Francoism to Democracy: The Effects of the Great Recession." They argue that the institutions designed by Franco in his early years created incentives for his cronies to pillage the economy getting a larger share of a smaller pie but that to stay in office Franco evolved modernizing the institutions that governed the economic and political life of the country in the 1950s. Their analysis shows that the institutional reforms implemented in 1959 led to the re-emergence of economic markets and economic growth and development. They argue that after Franco's death in 1975, institutional changes culminated in

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the emergence a new self-enforcing institutional framework that created political reform leading to democracy, the adhesion to the EU and an Europeanization of civil society, a decentralization political process, social and cultural modernization, the making of a Welfare State and leading to an unprecedented economic growth that ended when the huge economic crisis of the Great Recession of 2008 hit Spain. They maintain that the changes that occurred in Spain's political landscape after the great Recession were brought about by new social movements whose distrust and dissatisfaction with current political institutions had been growing for a while. Using regression analysis, they find evidence on the existence of a long-run relationship between economic crisis and political trust in Spain, in particular that economic crisis exerts a negative impact on political trust.

Four other chapters examine how institutions shape the interactions between different political and economic actors: Nonell and Medina on social pacts in different European countries; Eggertsson on the effect of voters on governance of fisheries in Iceland; Desierto on the influence of the government on the Chief Justice in the Philippines; and Javed on the determinants of institutional quality on IMF Programme and non-Programme countries.

In "Comparative Analysis of Institutional Incentives and Organizational Adjustment of Social Actors in Eight European Countries," Nonell and Medina examine policy-making when there are institutional differences across social actors in different European countries. They look at the social pacts that emerge in these countries and how these pacts can be reinforced or hindered by social actors, their strengths and the effects these have on economic outcomes. Their study bring out the effects that different types of bargaining systems have and how these depend on whether they are based on institutional rewards and political rationales or on centralized and coordinated bargaining.

Eggertsson's thought provoking chapter on the "Demand for Wealth Reducing Institutional Change. The Role of Ideas and Interests" challenges us to think about how the widespread demand for changes to the regulatory system governing the Icelandic fisheries—that were implemented after the devastating effect that the 2008 global financial crises had on Iceland—generated large wealth reducing effects. He develops a well-thought out argument showing how the changes implemented by the government lead de-facto to a deep institutional change and how those changes decreased welfare in Iceland. He convincingly argues that political pressure coupled with the general miss-understanding on the workings of the fisheries lead the government to respond to popular demands that in the end reduced the welfare of everyone in the country.

Desier to heads in a completely different direction studying the independence of the judicial system in the Philippines in "Judicial Independence: Evidence from the Philippine Supreme Court 1970–2003." She examines the decisions of the ten Chief Justices as they pertain to government cases in the two years prior and two years after their appointment as Chief Justices. Her regression analysis indicates that there are significant differences in the probability of favoring the government, prior to and post-appointment. This suggests that during this period the Chief Justice favored the government, thus providing evidence that during this period there was no judicial independence in the Philippines.

In "Institutional Determinants: A Case Study of IMF Programme and Non-Programme Countries," Javed examines the economic and political determinants of institutional quality during the 1980–2009 period by distinguishing between IMF non-Programme and Programme countries, period in which the IMF was particularly active. The contribution of this chapter, relative to the literature, is that it finds evidence that institutional quality falls when the military is in power, but develops with improvements in property rights, openness, aggregate governance,

real GDP growth, and enhancement in monetary system, investment freedom. They recommend that the IMF focus on improving institutional quality in their Programme countries.

These chapters also highlight that the evolution of institutions is not a static but a dynamic concept and that its evolution is by no means linear. Institutions can progress or regress depending on random events that hit the country and the economy in which they operate.

2. Democracy

The innovative work presented in this Section involves theories and empirical work that contest traditional and well established views or theories, by presenting non-traditional models of current social choices. These chapters challenge current theories by providing alternative theories and modeling approaches showing that these well-known results in the literature depend on assumptions that up to now were believed to be in a sense harmless in terms of the results derived from them.

Anderson, Holt, Sieberg and Oldham challenge the well-known but surprising theoretical result of Feddersen & Pesendorfer's (1998) on the Condorcet Jury theorem in their chapter "An Experimental Study of Jury Voting Behavior." They design an experiment to test whether the conviction of innocent defendants is *more likely* under unanimity than majority voting rules when jurors have private information and vote strategically rather than sincerely. To test this they make the cost of convicting an innocent defendant higher than that of acquitting a guilty defendant, so that the threshold of reasonable doubt is set at a level higher than the usual 50% threshold. They find no evidence of strategic voting and no difference between the unanimity and majority rules. Jurors, in their experiment, found it difficult to convict with no incorrect convictions occurring. To explain this they suggest that the risk neutrality assumption used in these type of models may prompt misleading conclusions as the high cost of convicting the innocent can interact with jurors' risk aversion to produce an even higher threshold of reasonable doubt than the results obtained when jurors' are risk neutral, which tends to neutralize the negative effects of strategic voting under a unanimity rule.

In "Trading Portfolios: The Stability of Coalition Governments," Demirkaya and Schofield explicitly model niche non-mainstream parties who are interested only in specific issues with strong preferences along these dimensions to study the effect that niche parties have on the allocation of ministries in coalition governments. They examine whether the higher value niche parties place on ministries—relative to mainstream parties—gives them an advantage in the allocation of ministries. In their model, two mainstream parties and a niche party divide a portfolio of three ministries. They compare the stable coalitions between the two mainstream parties and those between the mainstream party and a niche party and show that when the niche party forms a stable coalition it gets a higher payoff than the mainstream party, thus making the niche party a less desirable coalition partner.

To study the distribution of parliamentary rents between parties, in "Rent Seeking and the Size of Parliamentary Majorities." Klingelhöfer develops a two-party model where the minority party may capture a parliamentary majority by bribing members of the majority faction to switch party. Even though in equilibrium, the majority party control parliament, the electoral outcome is affected by the parliamentary rent-game played between parties after the election. He shows that since larger majorities require lower rent payments, voters face a trade-off between lowering rent payments by supporting the party that wins the election or supporting their preferred party. Not only the electoral game has multiple equilibria

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in which either party wins, but the size of the equilibrium majority is larger than when no post-electoral bribes are possible.

The chapters by Kselman and Serra examine the effect that the selection of US Presidential candidates in the primaries has on the convergence or divergence of candidates' electoral platforms. Both models challenge the view that the primaries generates platform divergence. In addition, the chapter by Eguia and Giovannoni challenges the view that in a one dimensional policy space with three or more alternatives the median policy is always chosen.

Kselman models elections as a two-stage Downsian one-dimensional electoral game where the candidates selected by each party in the primary run against each other in the election in his chapter "A Median-Activist Theorem for Two-Stage Spatial Models." He finds that party voters (the selectorate of the party and/or the median party activist) only exert a centrifugal force—a pull on party platforms away from the median voter's ideal policy—under fairly strict conditions; and only if candidates attach fairly high value to winning the nomination but losing the election. His "median-activist theorem" suggests that if candidates place little value on winning the nomination in and of itself, primaries are necessary, but not sufficient, for generating more extreme electoral platforms.

Serra extends Down's (1957) one dimensional spatial model by introducing primary elections in his chapter "No Polarization in Spite of Primaries: A Median Voter Theorem with Competitive Nominations." He finds that even though candidates have significant incentives to diverge from the median voter's ideal point, they still converge to the median and argues that this suggests that primaries are not sufficient to create polarization by themselves but that it is the other *complementary features* of these models that interact with the primaries leading candidates to diverge from the center.

A common held belief is that in one dimensional policy spaces, the median alternative is always chosen. Eguia and Giovannoni challenge this view in their chapter on "A Comment on Choice Rules and Median Outcomes" as they find that when there are three or more alternatives to choose from, non-median outcomes cannot be ruled out, even if all voters have linear Euclidean preferences.

Challenges to the way politics is conducted today have led to the emergence of a distinct breed of parties in various countries. Supporters of these new parties want greater input into the policy-making process within the party. Ramos and Puy provide a model in which one party does not follow the traditional procedure for establishing their policy platform in "Downsian Competition with Assembly Democracy." Their model examines the effect that the emergence non-traditional parties—whose policy platform is chosen directly by their supporters—has on the electoral outcome. They model political competition between a traditional party who implements its ideal policy if elected and a party whose policies are selected by an assembly of citizens. The non-traditional "assembly" party uses a two-step procedure to select its policies: in the first stage assembly citizens chooses a set of pre-election policies on which the party runs in the election; then if elected the policy that is implemented is chosen by a post-election assembly from among the set of policies chosen by the pre-electoral assembly. At the electoral stage, voters chose between a lottery over the multiple proposals of the "assembly" party and the ideal policy of the traditional party. Their results show that extremist assembly parties induce the traditional party to locate at the median policy position, whereas centrist assembly parties move the traditional party away from the median and in the opposite direction of the assembly's median. Centrist assemblies, with respect to extremist assemblies, have more chances of winning the elections.

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Khoury-Hagot and Lemennicier challenge the view that voting weights and voting powers are the same in international organizations. Their framework shows that voting weights and voting powers are not necessarily equal in “How Should Votes Be Weighted to Reflect the Existing and “Calculated” Distribution of Voting Power of Weighted Voting Organizations Integrating Different Majority Requirements?” Voting weights are measured by the number of votes allocated to each member and voting power by the ability of a member to influence voting outcomes. They show that while, in general, “calculated” voting powers—measured by the normalized Banzhaf index—tend to be linearly related to voting weights, the powers of larger countries either exceed or fall short of their proportional weight and show that their powers depend on majority voting requirements used in the decision. The 2008 voting and power weights are studied for the following weighted voting international organizations: African Development Bank (AfDB), International Bank for Reconstruction and Development (IBRD), International Fund for Agricultural Development (IFAD), and International Monetary Fund (IMF). Their findings show that when voting takes place under simple (qualified) majority, the voting powers of larger contributors are greater (smaller) than their voting weights. They also examine how votes should be weighted if they are to reflect the existing and “calculated” distribution of voting power and examine the potential “calculated” voting powers of larger countries given their “existing” voting weight when if these countries are to maintain the proportionately between weight and voting power of all other smaller countries. This allows them to estimate the opportunity cost of cooperation in international organizations in terms of loss of power as well as to provide an estimation of the minimum implicit gains which cover these costs.

3. Elections

The chapters in this section challenge the general view that parties always tend to converge to centrist positions in both one dimensional and multi-dimensional policy spaces.

Schofield and Kurellastudy the role of German activists on party positions in their chapter on “Party Activists in the 2009 German Federal Election.” They extend Schofield’s (2007) model to account for German parties adopting divergent platforms by including a valence term—a non-policy component in voters’ utility function—measuring an overall perceived external popularity or competence of each candidate that is exogenous and constant among the voters and including voter specific partisan bias or ideological distances to party positions. They show that this stabilizes the formal game of party competition by diminishing the probability of parties leapfrogging each other in equilibrium configurations. Yet they still find that the predictions of the models show significant discrepancy to empirical party configurations. They argue that in Germany it is voters and not interest groups that by making donations are those demanding polarization in party platforms. The identity of the activists is driven by German’s regulatory limitations on donations to parties.

Formal electoral models assume that countries are unitary actors and so the models are developed assuming that there are no sub-national entities that would affect national elections. Yet sub-national jurisdictions play important roles in determining the outcome of national elections. Labzina and Schofield develop and test a model for the 2010 British National election in which they account for the fact that in Scotland and Wales there are regional parties that did not run in England but that affect the national electoral outcome. To deal with regional parties in Britain they develop a national-regional model of British elections in

“Application of the Variable Choice Logit Model to the British General Election of 2010”. Their model allows voters to vote for the Scottish National Party in Scotland and for Plaid Cymru in Wales, in addition voting for the three national parties that run England: the Conservatives, the Liberal Democrats and Labour. They adapt the theoretical model of Yamamoto (2011) of the varying choice logit to allow voters to face different parties in different regions and find that while the Welsh party Plaid Cymru is not maximizing its vote share where it to locate at the electoral mean; the other parties do converge to the electoral mean.

Matakos, Troumpounis and Xefteris study the effect of the degree of electoral rule disproportionality on voter turnout in “Turnout and polarization under alternative electoral systems”. In their electoral competition model parties ‘platforms are endogenously chosen and depend on the degree of electoral rule disproportionality. They show that proportional electoral systems generate centrifugal forces that increase candidate differentiation, and that this leads to lower levels of voter abstention—due to indifference between parties—in more proportional systems. Using regression analysis, they find that in proportional representation systems there is higher voter turnout even after jointly controlling for the prevailing pivotality and party-system size hypotheses.

Artes and Jurado challenge the empirical methods used to assess claims on the causes of government overspending. Even though the public spending literature argues that in multi-agent decision-making process tend to produce public overspending, empirical studies on the effect of minorities and coalition governments on spending have failed to find strong support for this hypothesis. They examine deficits in sub-national Spanish jurisdictions in “Fiscal deficits and type of government: a study of Spanish local elections” and develop credible arguments highlighting the reasons for the empirical evidence being mixed. The thrust of their arguments is that standard regression models do not accurately capture unobserved heterogeneity that exists between jurisdictions. Using data from Spanish municipalities from 2004 to 2011 and four typical estimation methods—mean comparison, OLS, fixed effects regression, and matching—they argue and present evidence that only the matching technique captures the unobserved heterogeneity and selection bias present in these types of governments. After developing a technique to account for the fact that minority governments in municipalities do not arise randomly as required by the matching model, their results show that minorities run lower surpluses than single party majorities.

Pavia and Toboso tackle the debate regarding the election of US Presidents by the Electoral College when the candidate fails to win a majority of the popular vote in “Federalism, proportionality and popular will in US presidential elections: did Colorado have the right idea?” They argue that there are intermediate proposal between those advocated by supporters and abolishers of the Electoral College. In their view, an intermediate solution would continue to respect the spirit of the US as a federal nation while enabling proportionality to be incorporated into the process. One such solution is that proposed by the Amendment 36 to the Colorado Constitution. They examine what would have happened if the Colorado proposal had been implemented nationwide in Presidential elections from 1828 to 2012 and show that this proposal might have made the Electoral College’ results closer to popular will, would have diminished the risk of electing a non-popular winning President and would have require the elected President to have a more balanced regional support but that it would have encouraged the emergence of third minor candidates.

4. Conclusions

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This volume presents important work that challenges existing theories and evidence on institutions, democracy and elections. The chapters contribute to our understanding on the persistent effect of historical institutions on current institutions and on the decisions of different economic and political actors; on how governments are forced to induce changes in institutions and how these changes may take decades to materialize; on how popular demands induce government to make institutional changes that may not be welfare enhancing. The Democracy chapters challenge view on the Condorcet Jury theorem; gives a better understanding of how niche parties affect the stability of coalition governments via their demand on ministries; on the distribution of parliamentary rents across parties; on the effect of primaries on platform divergence; on convergence to the ideal policy of the median voters in one dimensional policy spaces; on the emergence of non-traditional more consultative parties and the effect their have on elections; and on the distinction of voting weights and voting powers in international organizations. Under elections, we were presented with models dealing with the influence of activists on the election; on the effect that sub-national jurisdictions have on the election when there are parties that run only in some jurisdictions but not in others; on the effect that electoral disproportionality of the electoral system has on voter turnout; on how the majority/minority status of municipal governments determine the deficits/surpluses run by these governments and on how the Electoral College could be made more proportional and its effects on the identity of the winning US Presidential candidates.

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