Economic Systems 41 (2017) 68–85

Contents lists available at ScienceDirect

Economic Systems

journal homepage: www.elsevier.com/locate/ecosys

Political institutions behind good governance

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ARTICLE INFO

Article history:
Received 8 February 2015
Received in revised form 15 February 2016
Accepted 16 May 2016
Available online 19 November 2016

JEL classification:
D72
H11

Keywords:
Electoral rule
Political system
Government effectiveness
Regulatory quality

ABSTRACT

The present paper investigates the role of political institutions — namely, political regimes and electoral rules — in shaping the capacity of the government to implement policies that address citizens' preferences, i.e., "good governance". The empirical analysis, conducted on a panel of 80 democratic countries over the period 1996–2011, shows that the performance of the government depends on the interaction between electoral rules and political regimes. In particular, the performance of a government under a presidential regime improves when associated with a majoritarian electoral rule, while it worsens with a proportional electoral rule.

1. Introduction

The capacity of governments to implement programs and policies is crucial for countries' economic development and citizens' well-being; it is the government that issues regulations for the market to work in an efficient way and that provides most of the public goods and infrastructure. Too much discretion, however, can lead to rent-seeking behaviour and inefficient use of resources. When devising the institutional setting within which the executive operates, two distinct and sometimes conflicting needs emerge: on the one hand, the executive needs to be restrained in order to avoid "abuse" and rent-seeking behaviour; on the other hand, political institutions should guarantee the discretion and freedom to implement policies and economic programs. The difference in the performance of the executive among democratic countries can be attributed to a different mix between the delegation of powers and accountability.

The trade-off between restraint and delegation of powers is well described in Aghion et al. (2004), who consider the share of votes that can block a government action as a measure of discretion. The authors focus on the "optimal" level of restraint, maintaining that it depends on several characteristics of the political system, such as the degree of polarisation in society, the aggregate benefit of the policy, the individual degree of risk aversion, the availability and efficiency of fiscal transfers, and the degree of protection of property rights. They do not, however, consider which political institutions are required for the desired level of restraint. The political science literature is well aware of this problem, and the analysis of political institutions (presidential vs. parliamentary regimes) is conducted on the basis of political features that affect the trade-off between the implementation and restraint of government actions (Samuels and Shugart, 2003). For instance, Mainwaring and Shugart (1997) consider the different features of the political system and their impact on the well-functioning of the

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http://dx.doi.org/10.1016/j.ecosys.2016.05.004
0939-3625/

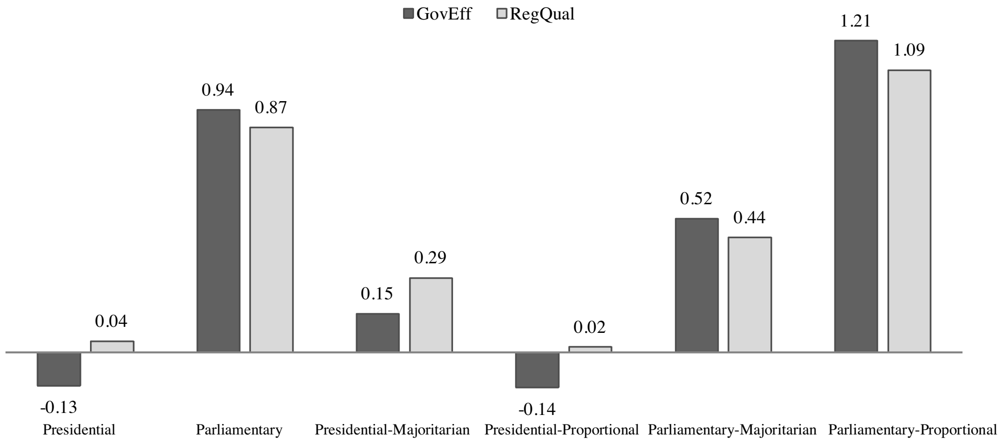

Fig. 1. Average impact of political institutions on government performance.
Notes: The values of the columns refer to the average over time (1996–2011) and over countries of the indexes of government efficiency and regulatory quality, respectively. Both indicators range between −2.5 and 2.5, with higher values indicating stronger governance performance. The column labeled *presidential-majoritarian* refers to the average of the sub-sample of countries with a presidential regime and a majoritarian electoral rule; the same interpretation is valid for the rest of the columns.

presidential system, showing that the presidential system works better when presidents have weak legislative powers, the assembly is not highly fragmented, and elected politicians follow party discipline.

The focus of the present paper is on two institutional features that affect the mix of delegation of powers and accountability: the electoral rule and the political regime (parliamentary vs. presidential). The former affects the way in which the assembly is formed — party fragmentation, selection of candidates, party discipline, etc. —, while the latter affects the incentives of the executive and its relationship with the assembly (Mainwaring, 1993). We contribute to the literature by showing that the actual mix of power and restraint of a government emerges from the interaction between the political regime and the electoral rule. This interaction is crucial for the performance of the government. For instance, one of the main criticisms of the presidential regime is the risk of immobilism due to a president who is not supported by the assembly (Linz, 1990)[1] and without control over the agenda (Figueiredo and Limongi, 2000; Cheibub, 2007). This risk is lower in a parliamentary regime where a vote of no confidence would quickly remove the executive. Therefore, an electoral rule that produces a less fragmented assembly and induces more party discipline can improve the effectiveness of presidential regimes. A majoritarian rule tends to generate a two-party system (Duverger, 1954) and, under certain conditions, party unity (Carey and Shugart, 1995), which makes it easier for the president to achieve stable and large majorities. By contrast, the combination of a presidential regime and a proportional electoral rule makes it more difficult to build stable coalitions and party discipline, thus hindering the implementation of government policies and jeopardising the performance of the government (Mainwaring, 1993). Thus, presidential regimes — especially if the executive has no control over the agenda — present more problems of governability than parliamentary regimes, where a vote of confidence can induce party discipline and stable coalitions even in fragmented assemblies. Under these circumstances, presidential systems should be accompanied by an electoral rule, such as the majoritarian, that favours governability over representativeness, while parliamentary regimes can benefit from the representativeness of a proportional rule without prejudice for governability.

The performance of the governments is captured by two perception-based indicators developed by the World Bank within the Worldwide Governance Indicator project (Kaufmann et al., 2011). The first indicator, government effectiveness, captures the perception of the quality of public services and policies and the credibility of the government's commitment to such policies. The second indicator, regulatory quality, captures the perception of the government providing policies that foster private sector development. Together they give an indication of the quality of the government both in terms of its ability to devise good policies and to implement them.

[1] Horowitz (1990) criticizes Linz's view by providing convincing arguments that the drawbacks of presidentialism are not always harmful for government performance and stability.