



Are we all playing the same game? The economic effects of constitutions depend on the degree of institutionalization



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ABSTRACT

This paper addresses an important source of variation within democracies – the degree of institutionalization. The concept of institutionalization describes the extent to which politics takes place, and is believed to take place, via formal political institutions. Countries vary in their degree of institutionalization, hence, in the degree to which political actors pursue their goals via conventional politics or via “alternative political technologies”. This paper postulates that if politics is conducted largely outside of formal channels, the structure of the formal channels should not matter much as a determinant of policy outcomes. To address this issue this paper proposes a new index of institutionalization and with it revisits seminal work regarding the impact of constitutions on public spending. The findings show that the effect of constitutional rules on policy outcomes is conditional on the degree of institutionalization.

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1. Introduction

This paper addresses an important source of variation within democracies – the degree of institutionalization. The concept of institutionalization, owing originally to [Huntington \(1968\)](#) loosely describes the extent to which politics takes place, and is believed to take place, via formal political institutions. This notion has been more recently formalized by [Scartascini and Tommasi \(2012\)](#) who study political actors' choice to pursue their goals via conventional politics or via “alternative political technologies” (e.g. protest). Their model gives rise to multiple equilibrium levels of institutionalization; thus we shouldn't expect all democracies to “progress” to the heavily institutionalized politics of the US or Northern Europe. This then leads to a natural empirical question: if politics is conducted outside of formal channels, should the structure of those formal channels matter less as a determinant of government spending? To address this question this paper proposes a new index of institutionalization and uses it to revisit the seminal work of [Persson and Tabellini \(2003\)](#) regarding the impact of constitutions on policy outcomes.

The formal analysis of the effects of institutional rules over policies has progressed dramatically in the last couple of decades.¹ The stylized models have tended to assume that the political action relevant to the policymaking process takes place within relatively formalized institutional arenas (the voting booth, the building of Congress, etc.), and that the incentives of the participants are

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¹ Some of this progress is summarized by textbooks such as [Persson and Tabellini \(2000, 2003\)](#), [Mueller \(2003\)](#), and [Gehlbach \(2013\)](#).

bound by formal institutional rules (electoral rules, committee rules, etc.). These simplifications of complex realities are reasonable ones for various countries at some moments in time, but are a much rougher approximation of policymaking in other places.

Countries differ widely in the extent to which public policy decisions are processed more or less with regard to the spirit of constitutional rules.² In some countries, power in the streets, the threat of violence or economic disruption, control of the press, or access to bribing the President may be as valuable as the power in Congress and other formal institutions. Consequently, the structure that determines who controls the street, the press, or the access to back rooms may be as much a determinant of policy outcomes as electoral and legislative rules. If countries vary in the degree to which the formal institutions of government such as Congress, political parties, and the judiciary are the central conduits of political pressuring and bargaining, we might expect the relative impact of the rules regulating behavior in such official channels (constitutions) to vary as well.

This paper takes a step in the direction of exploring the conditional effects of constitutional rules on policy outcomes, focusing on well-known results connecting forms of government and electoral rules on government spending. Theory and previous evidence suggest that proportional representation systems tend to favor larger governments than majoritarian systems, and that presidential forms of government lead to smaller governments than their parliamentary counterparts. In this paper, we reproduce such exercises, but taking into consideration the degree of institutionalization of political institutions across countries.

We define institutionalization as the degree to which formal political arenas such as the legislature or the political party system are indeed the loci of political power, and we use some empirical proxies for the institutionalization of the policymaking process by considering jointly the degree of institutionalization of congresses, parties, judiciaries, and bureaucracies. We cluster countries according to the level of institutionalization of their political institutions, and perform the analysis within each group. While the standard results are confirmed (and even strengthened) within the sample of high-institutionalization countries, almost none of those results are obtained for the low-institutionalization countries. The analysis is robust to different clustering techniques, outliers, and misclassification, and it is also robust to endogeneity concerns. We also perform the analysis in a more continuous manner by interacting the constitutional variables with our index of institutionalization, and also find that the absolute value of the relevant coefficients to be increasing in institutionalization. Additionally, results are also robust to endogenous selection into the subsamples. Moreover, our results cannot be replicated by partitioning the sample of countries using alternative criteria (placebo exercises). The combination of all of these results suggests that the split of countries on the basis of our proxies for institutionalization is capturing something relevant.

Even though the indicators of institutionalization used here could be improved upon, we take the results of the paper as indication that further work in the area is warranted. The logic and findings here suggest that it is necessary to develop a broader class of models that make endogenous the degree to which formal institutional arenas are indeed the key loci of political decision-making. Moving in that direction will allow a more integrated study of policymaking across countries of different degrees of institutionalization, as well as a better understanding of the role and effects of political institutions, an important endeavor from both an academic and a policy perspective.

The rest of the paper is organized as follows. [Section 2](#) presents the basic conceptualization behind institutionalization, which is complemented in [Section 3](#) where we develop the basic framework. [Section 4](#) presents our measures of institutionalization. [Section 5](#) summarizes the literature that looks at the relationship between constitutions and economic policy. [Section 6](#) presents the empirical analysis, and [Section 7](#) concludes.

2. The institutionalization of policymaking

Institutions are social order structures and mechanisms that regulate the behavior of individuals. The term “institution” is commonly applied to important habits and customs within a society, as well as to the particular forms in which government and bureaucracy are organized ([Rhodes et al., 2006](#)). In particular, the concept of “political institutions” refers to both the combination of constitutional and electoral game rules that define what various political actors can and cannot do, and to certain formal governmental or quasi-governmental organizations, such as the legislature, the judiciary, public administration, political parties, etc. Institutionalization is a characteristic of those systems of interaction that are associated with greater recognition and formalization of certain ways of making decisions and enforcing them. The notion of institutionalization within the context of political institutions has been underlined by outstanding authors in the tradition of democratization studies, such as Samuel Huntington in his famous *Political Order in Changing Societies* ([Huntington, 1968](#)). Beyond this very general discussion, the subject of institutionalizing political institutions has also been tackled in political science regarding certain arenas or specific sub-systems, such as the institutionalization of political parties, of legislatures, and of judiciaries.

An institutionalized system of political parties implies stability in inter-party competition, the existence of parties with more or less stable roots in society, the acceptance of parties and elections as legitimate institutions that determine who will govern, and party organizations with reasonably stable rules and structures that wield influence on the direction of party policy and determine the party leadership ([Jones, 2010](#); [Mainwaring and Scully, 1995](#)).³ The institutionalization of legislatures has been the subject of

² Two countries such as Argentina and the U.S. have similar constitutional rules, yet their processes of producing public policies couldn't be more different ([Spiller and Tommasi, 2003, 2007](#); [The Economist, 2014](#)). More generally, the study of policymaking in countries in Latin America (see for instance [Stein and Tommasi, 2008](#), and [Scartascini et al., 2010](#)) suggests that many aspects of formal models of policymaking within institutional rules often sound foreign to the policymaking practices observed there.

³ The literature has also developed a series of measures of political party institutionalization, which include notions of in-party investment (questions such as “Does the party organization have structure and resources?”), as well as notions regarding the beliefs held about the institution by both those within the organization as well as by wider social actors (questions such as “Do people have confidence in political parties?”).

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