



# Electoral rules, forms of government and redistributive policy: Evidence from agriculture and food policies

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## ABSTRACT

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We investigate the effect of electoral rules and forms of government on public policy outcomes using a new dataset on agriculture and food policies from 74 countries over the 1960–2005 period. Using both cross-sectional and panel data analyses we find robust evidence that the specific nature of democratic institutions has important consequences for public policy. Proportional democracies and presidential democracies – compared to majoritarian and parliamentary democracies – give more public support to agriculture and less to food consumers. The magnitude of these constitutional effects are stronger for import-competitive sectors and staple food crops. The effects seem independent from the ideology orientation of governments. *Journal of Comparative Economics* 41 (1) (2013) 141–158. Università degli Studi di Milano, Italy; LICOS – Centre for Institution and Economic Performance, Belgium.

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## 1. Introduction

The impact of political regimes on growth and public policy is an important new research area in the field of comparative politics. The initial focus was on ‘democracy’ vs. ‘autocracy’ or the shift from one to the next (Barro, 1997; Rodrik and Wacziarg, 2005; Giavazzi and Tabellini, 2005). However, the evidence that democratization *per se*, systematically affects growth and public policy is weak (see Persson, 2005; Persson and Tabellini, 2008; Acemoglu et al., 2008).<sup>1</sup>

As a consequence scholars have shifted their attention to more specific details of democratic constitutions, like electoral rules and forms of government. For example, Persson and Tabellini (2006) show that while a shift from autocracy to democracy does not have an effect on either fiscal or trade policy, there is a positive and large effect when one considers transition to parliamentary (vs. presidential) or proportional (vs. majoritarian) democracies. These results are important as they

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<sup>1</sup> The recent meta-analysis of Doucouliagos and Ulubasoglu (2008) concludes that democracy does not have a direct impact on economic growth. However, democracy has robust, significant, and positive indirect effects, through policies. The literature tends to be inconclusive especially when democratization episodes are considered against growth and trade policy. Differently, studies that contrast the *level* of democracy to different indices of economic liberalization (as in Giuliano et al., 2010), or by using instrumental variables techniques (as in Eichengreen and Leblang, 2008) are more supportive of a positive role played by democracy. See also the recent contributions of Murin and Wacziarg (2011) and Grosjean and Senik (2011).

complement previous cross-country evidence about the effect of constitutional rules on public policy outcomes (see Persson and Tabellini, 2003).

Theory predicts that proportional electoral systems and parliamentary regimes should be associated with a broad form of redistribution, like welfare programs, as well as with higher levels of government spending and redistribution, *vis-à-vis* majoritarian and presidential systems (see Persson and Tabellini, 2003). A related set of comparative politics models focus on trade policy, predicting a protectionism bias in majoritarian politics (see Grossman and Helpman, 2005).

Until now, the evidence linking these constitutional features to public policy has been largely confined to macro-economic policies, like fiscal policy and trade policy.<sup>2</sup> Moreover, with the notable exceptions of Persson and Tabellini (2006), empirical evidence draws largely from cross-country variation. However, it is notoriously difficult in comparative politics to extract causal inference from cross-sectional data (see Acemoglu, 2005). Constitutions are themselves political outcomes and their policy effects can be confounded with that of other factors, such as cultural, historical and institutional factors, if these are not properly controlled for.

The objective of this paper is to make a contribution to the literature by addressing two main issues. First, we focus on a specific redistributive policy which is widely used in developing and developed countries, i.e. policies to tax or support farmers and food consumers. This specific policy focus is interesting because of its policy relevance and because of the availability of new policy indicators. The agricultural and food sector is an ideal case for studying the political economy of public policies. The sector is subject to heavy-handed governmental interventions throughout the world. Despite decades (even centuries) of economists' arguments against agricultural subsidies and tariffs, political factors continue to dominate agricultural policy setting (including trade policy) in both rich and poor countries. The struggle of the World Trade Organization (WTO) to conclude the Doha round of multilateral trade negotiations brought again to the forefront the important role that agricultural policy continues to play in international trade relations. In poor countries, where agriculture is a very important share of the economy and where food is a major consumption item, the importance of agricultural policy as a public policy issue is obvious. However, also in rich countries agricultural policy remains disproportionately important compared to the relatively small share of agriculture in terms of economic output. For example in the EU, the Common Agricultural Policy (CAP) continues to absorb 45% of the entire EU budget in 2010. Despite a strong decline of agriculture in terms of employment and output, rich countries' unwillingness to reduce agriculture subsidies threatens the WTO negotiations.

Agricultural and food policies have changed dramatically over the course of long-term economic development and continue to vary widely among countries, across commodities, and in the choice of policy instruments used. Accordingly, the evolution of policies affecting this sector and the fundamental differences among countries provides an excellent empirical foundation for studying the determinants of policy choices, and in particular of political institutions.

We make use of a new dataset on agricultural and food policy recently developed by the World Bank (see Anderson and Valenzuela, 2008). The public policy indicators in this new dataset cover more countries and larger period of time than it was previously available. In addition the indicators capture the effect of various public policies, including trade and fiscal policies, that affect agriculture and food consumers. Therefore, these data represent potentially an improvement compared to the standard practice of using trade openness indicators, like the Sachs and Warner (1995) index to measure trade policies (e.g. Giavazzi and Tabellini, 2005; Milner and Kubota, 2005; Persson, 2005; Persson and Tabellini, 2006, among others),<sup>3</sup> or other measures like score indices of agricultural policy reforms in the export sectors, as in Giuliano et al. (2010). The new indicator measures directly the policy outcomes that we are interest in, and is likely less affected by measurement errors of subjective indicators. Second, and most important, the use of this large new dataset also allows us to include a mix of democracies and non-democracies and to measure political transition effects.

Our key empirical strategy follows the recent tendency of including democracies as well as non-democracies in the sample, to overcome the fact that established democracies do not display sufficient (time) variation in their constitutional features (Persson, 2005). Thus, our main source of institutional variation comes from about sixty-five democratization episodes (political reforms) in the 1960–2005 period. Exploiting these reforms, we conduct a before-after analysis to disentangle the protection growth effect of democracy *per se*, from that of its constitutional details, in terms of electoral rules and forms of government.

Hence, by exploiting the within- and across-country variation in constitutions and public policies, our econometric approach is less susceptible to the endogeneity concerns of this type of analysis – as explained by Acemoglu (2005). However, as a robustness check, we complement our difference-in-difference analysis with cross-sectional inference also based on instrumental variables (IV) estimator.

We find a significant *positive* effect of political reforms on support and redistribution toward farmers. In particular, democratic reforms into proportional democracies (*vis-à-vis* majoritarian) induce a clear switch from taxation to subsidization of farmers. Reforms into presidential democracies (*vis-à-vis* parliamentary) point in the same direction, but have less effect. Moreover, our analysis suggests that the magnitude of the institutional reform effect on agricultural protection tends to

<sup>2</sup> A few empirical studies have investigated the effect of constitutions on agricultural policy, focusing especially on democracy. Cross-country studies displayed inconclusive results (see Swinnen et al., 2000; Olper, 2001). Studies that exploit the panel dimension of the data find that democratization display a positive and robust effect on agricultural protection (see Swinnen et al., 2001; Olper et al., 2009).

<sup>3</sup> Whether the Sachs–Warner openness index measures exclusively trade openness remains an unanswered question, because trade openness is correlated with institutions (see Rodriguez and Rodrik, 2001). On virtues and limits of Sachs–Warner index, see also the more optimistic view of Wacziarg and Welch (2008).

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