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# Electoral competition and endogenous political institutions: Quasi-experimental evidence from Germany<sup>☆</sup>



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## ABSTRACT

Do established parties change political institutions to disadvantage new political actors if the latter's electoral prospects improve? We study this question with a natural experiment from the German federal state of Hesse. The experiment is an electoral reform for local elections that improved the electoral prospects of smaller parties and party rebels. However, local politicians from the large mainstream parties could adjust municipal political institutions in such a way as to counteract this effect of the reform. One such institutional adjustment was to reduce the size of the local council because a reduction in council size raises the implicit electoral threshold and thus disadvantages especially smaller parties. Using a dataset that covers all 426 Hessian municipalities over the period 1989–2011, we document with a difference-in-discontinuities design that municipalities where the electoral competitiveness of smaller parties improved more after the reform saw a larger reduction in their council size. Hence, established parties appear to erect barriers to entry by adjusting political institutions once new political actors become viable electoral alternatives.

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## 1. Introduction

Even if all constitutional authority is supposed to derive from the will of the people, elites wield significant influence over the political process. In many countries, it is the political elite that decides how electoral districts are shaped, how votes are translated into seats, and how many seats the legislature has. Since the rules that govern the constitutional life of a country, its political institutions, can be reshaped by those who currently hold the reigns of power, it seems plausible that they would adjust these rules in an ad hoc fashion to maintain their position at the top of the political order. The political elite, in short, may change institutions in such a way as to erect additional barriers to entry for new political actors once they become a credible electoral threat (Doron and Maor, 1991).

Anecdotal evidence indeed suggests that mainstream parties adopt measures to disadvantage new political actors if the latter become too successful. After the success of Ross Perot's Campaign in the 1992 US presidential race, for example, third

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party candidates were prevented by the Commission on Presidential Debates – which is controlled by both the Republican and Democratic parties – from participating in future presidential debates, a measure that likely diminished the electoral prospects of non-mainstream parties.

While such anecdotal evidence can be found easily, the question is whether it is indicative of a general phenomenon. This paper is one of the first to offer quasi-experimental evidence on whether established parties adjust political institutions to disadvantage new political actors. To do so, we make use of a natural experiment in the German State of Hesse: an electoral reform for local elections passed by the Hessian state parliament in 1999 and implemented in 2001 (when the first election after the reform was held). The professed purpose of the reform was to increase the degree of political competition at the local level. Its important aspects were (i) the abolishment of an explicit electoral threshold, the so called “five-percent hurdle” and (ii) the introduction of a new voting system called *Kumulieren und Panaschieren* (KUP), which entailed in particular a switch from closed to open lists.

Before the reform political competition, both between and within parties, was limited in various ways. Between-party competition was limited because the electoral threshold prevented many smaller parties from receiving seats to which they were entitled to given their vote share. Furthermore, voters might have been reluctant to vote for smaller parties in the first place given the non-negligible chance that their vote would be “wasted” if their preferred party did not overcome the electoral threshold. Within-party competition was limited because voters could vote only for closed party lists, with the position of candidates on the lists essentially determined by the local party leadership. Consequently, candidates not closely affiliated with the local party leadership (for simplicity we refer to such candidates as party rebels in the following) had few chances to gain a seat in the council.

After the reform, both smaller parties and party rebels became a more viable electoral alternative. First, smaller parties required, in general, a substantially lower vote share than five percent to gain their first council seat and thereby legislative representation. Second, party rebels, even if they had been placed at a low-ranked position on the party list, could enter the council if they received sufficient personal votes to overcome the party leaderships’ pre-ordering.

The question we ask in this paper is how the established political parties reacted to this exogenous increase in the electoral competitiveness of smaller parties and party rebels: did they change the prevailing local political institutions to put these new political actors back at a disadvantage? We show that at least one municipal political institution was indeed adjusted after the reform: the size of the local council. By reducing the number of council seats, which can be done through a two-third council majority, the mainstream parties raised implicit thresholds – the minimum vote share that a party has to gain to receive at least one seat – and thus made it harder for smaller parties to gain their first council seat. Furthermore, party leaders may have also used council size reductions to prevent party rebels from receiving a seat following the switch to KUP. However, as we discuss below in more detail, reductions in council size are arguably less effective in preventing party rebels from entering the council than in preventing smaller parties. We therefore focus in the following on the link between the abolishment of the explicit threshold, council size reductions, and the competitiveness of smaller parties.

Since all Hessian municipalities were subject to the abolishment of the explicit electoral threshold, there is no obvious control group against which changes in council size from the pre- to the post-treatment period could be evaluated. Our identification strategy to uncover the causal effect of the abolishment on council size relies therefore on differences in the intensity of treatment. Municipalities that had a larger council were affected more strongly by the abolishment of the explicit electoral threshold than those with smaller councils because municipalities with smaller councils have higher implicit thresholds to begin with. That is, the competitiveness of smaller parties is higher the larger the council after the reform. Therefore, the mainstream parties had a stronger incentive to reduce the size of the council if the current council size in their municipality was large. They are, however, not completely free in doing so. A state law relates municipal population sizes discontinuously to minimum and maximum council sizes. We exploit the discontinuous nature of the link between population size and council size to implement a variant of the regression discontinuity design (RDD), the difference-in-discontinuities design (Diff-in-Disc).

This paper contributes to the literature on political institutions, and specifically to the literature on their determinants. A strand of this literature assumes a historical perspective and analyzes how secular changes in political regimes, most notably the shift to popular democracy, were determined by conscious decisions of the elite (Acemoglu and Robinson, 2000, 2006; Aghion et al., 2004). On the other hand, the literature on the determinants of contemporaneous and arguably less decisive adjustments of political institutions within generally democratic societies is scarce. One of the few studies are Hayo and Voigt (2010, 2013) who analyze with cross-country regressions why countries witness constitutional change. They find that political factors, e.g. whether there is an internal armed conflict, determine how countries transition from a parliamentary to a presidential form of government (or vice versa). Another study is Ticchi and Vindigni (2010) who find with cross-section regressions that countries with higher income inequality are more likely to have majoritarian electoral rules.

Even rarer are studies on how political institutions are adjusted by established elites to counter threats from new political actors. Drometer and Rincke (2014) find that in the US, states which were affected more strongly by the Voting Rights Act of 1965 tightened ballot access restrictions to hinder new entrants into the political market.<sup>1</sup> Similarly, Trebbi et al. (2008)

<sup>1</sup> Lee (2013) shows that US House incumbents respond to the threat of third party candidates within their constituency by adjusting how they vote in roll call votes. However, he does not study adjustments of political institutions.

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