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# I

## *Introduction*

### *Political Institutions and the Determinants of Public Policy*

STEPHAN HAGGARD and MATHEW D. MCCUBBINS

#### INTRODUCTION

This volume is devoted to exploring the effects of political institutions on public policy. A generation of work has shown that institutions affect various political outcomes. For example, numerous scholars have shown that electoral systems shape the behavior of parties, candidates, and voters.<sup>1</sup> Other scholars have demonstrated that different constitutional structures, such as presidential or parliamentary systems, affect regime stability, accountability, responsiveness, and democratic durability.<sup>2</sup> Less is known about *how* and *when* institutions affect policy outcomes.<sup>3</sup>

<sup>1</sup> See Duverger 1954; Sartori 1968; Rae 1971; Riker 1982; Grofman and Lijphart 1986; Cain et al. 1987; Taagepera and Shugart 1989; Lijphart 1994; Ordeshook and Shvetsova 1994; Sartori 1994; McCubbins and Rosenbluth 1995; Cox and Shugart 1996; Cox 1997; and Cox and Amorim-Neto 1997.

<sup>2</sup> See Lijphart 1991, 1992; Shugart and Carey 1992; Stepan and Skach 1993; Linz 1994; Linz and Valenzuela 1994; and Shugart and Mainwaring 1997.

<sup>3</sup> There is some evidence that political institutions affect policy choice; see, for example, Shepsle 1979; Lancaster 1986; Brady and Morgan 1987; Abente 1990; Laver and Schofield 1990; North 1990; Kiewiet and McCubbins 1991; Cox and McCubbins 1991; Huber 1992; Shugart and Carey 1992; Root 1994; Strom et al. 1994; Ames 1995a, b; Cowhey and McCubbins 1995; Haggard and Kaufman 1995; Tsebelis 1995; Laver and Shepsle 1996; Levy and Spiller 1996; Tsebelis and Money 1997; Lupia and McCubbins 1998. It has been argued, for example, that single member district and single nontransferable vote electoral systems create incentives that lead legislators to demand particularistic policies – policies that provide private benefits to a district or constituency (Fiorina and Noll 1979; Weingast, Shepsle, and Johnsen 1981; Cain, Ferejohn, and Fiorina 1987; Ramseyer and Rosenbluth 1993). It has also been argued that bicameralism leads to greater budget deficits; and that separation of powers may produce gridlock and stalemate (Alesina and Tabellini 1990; McCubbins 1991; Alt and Lowry 1994; McCubbins and Rosenbluth 1995; Tsebelis 1995; Heller 1997; Tsebelis and Money 1997). While this evidence is often compelling, there are as many institutional hypotheses as there are observations.

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For nearly 300 years, constitution writers and institutional designers have been cognizant that their choice of institutional structure affects political behavior. They have recognized that there is no single ideal form of democratic government, and that each choice involves tradeoffs. For example, if law-making authority is unified in a single place, whether it be in the legislature or the executive, then the likelihood that a single faction with a narrow purpose will seize control of government is greatly increased. At the extreme, tyranny results. If, by contrast, law making is so thoroughly separated that numerous competing factions each must consent to changes in law and policy, then government may be incapable of sustaining the public order.<sup>4</sup> The extreme form of this condition, decision by unanimity, can lead to paralysis and chaos. Every democracy, whether parliamentary or presidential, federal or unitary, treads this space between tyranny and anarchy.

To avoid the extremes of tyranny and anarchy, institutional designers must allocate power among officeholders and structure the incentives of these officeholders accordingly. To decrease the likelihood of tyranny, many democracies rely on a system of checks and balances to separate powers, so that the ability to change public policy is shared among many competing areas of government. Legislative power may be separated from executive power, and both are separated from judicial power. The focus of most research on democratic institutions has been on the creation, function, and effects of these institutional checks.<sup>5</sup>

According to one of America's early institutional engineers, James

Further, there are numerous counterexamples where institutions seem not to affect policy (Johnson 1982; Putnam 1993).

<sup>4</sup> By tyranny we mean, "The accumulation of all power, legislative executive, and judiciary, in the same hands, whether of one, a few, or many, and whether hereditary, self appointed, or elective . . ." (Madison, *Federalist* 47). By faction we mean, ". . . a number of citizens, whether amounting to a majority or a minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community" (Madison, *Federalist* 10).

<sup>5</sup> Ibid., footnote 3. The recent, theoretical work that has most focused on the separation of powers is Tsebelis (1995). His focus is on how the number of veto gates in a political system, and the conflict of interest among the persons occupying those veto gates, affect legislative productivity. He shows in a cooperative game theoretic framework that an increase in either the number of veto gates or the diversity of veto players will reduce the likelihood of new laws passing. Thus his analysis emphasizes predominantly the checks in a system. Tsebelis's work on bicameralism, and especially on the navette system (see Tsebelis and Money 1997), looks at the balances between branches to a much greater extent, and therefore complements his work on vetoes and law production.

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Madison, for a separation of powers to create effective checks and balances, each branch of government “should have a will of its own,” and needs to be given “the necessary constitutional and personal means to resist encroachments.”<sup>6</sup> In other words, beyond the separation of powers, there must also be a separation of *purpose* – so that different parts of the government are motivated to seek different goals. Failing this, the system of checks established by the separation of powers can be effectively disabled.

In general terms, a separation of powers can be thought of as the extent to which different components of government have the ability to exert influence through the exercise of a veto on the formation of public policy (for a more precise definition, see Cox and McCubbins’s chapter in this volume). A separation of powers is the defining feature of presidential systems, but as Tsebelis (1995) points out, it can be found in parliamentary systems as well in the form of bicameral legislatures (Tsebelis and Money 1997), federal structures, or party systems that generate coalition governments (Laver and Shepsle 1996).

A separation of purpose, however, is orthogonal to a separation of powers; it can occur with or without a separation of powers. For instance, when a society has diverse interests, and its political institutions provide distinct channels for the representation of those interests, then a separation of purpose and power are both present. A unitary parliamentary regime, for example, lacks a formal separation of powers, but can also give rise to a separation of purpose in the form of a coalition government in which the goals of the different coalition members differ or through dominant parties that are internally divided, as in Japan.<sup>7</sup>

This discussion suggests the two-by-two typology of institutional regimes presented in Table 1.1. The diversity of country examples in the table illustrates an important point: Democratic institutions differ substantially with respect to separation of purpose and power, while many different institutional arrangements lie in between the extremes of tyranny and anarchy.

The central theme of this book is that these different institutional arrangements *also have systematic effects on policy making*. Although

<sup>6</sup> Madison, *Federalist* 51.

<sup>7</sup> For a discussion of the effects of coalition government on policy, see Huber (1998). In addition to coalition governments, minority governments can also be construed as examples of separation of purpose, to the extent that they must appease opposition parties in order to prevent the government from falling. See Strom (1990b).

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Table 1.1. *Combinations of Separation of Purpose and Power*

Purpose	Power		
	Unified	Unified:	Separated:
		United Kingdom	Mexico Taiwan
	Separated	Japan	United States
		Czech Republic	Argentina Poland Chile

the relative merits and consequences of presidential and parliamentary systems have received substantial attention,<sup>8</sup> we argue that this distinction between macro institutions is inadequate; explaining political outcomes often requires greater focus on the details of institutional structure. How exactly is the separation of purpose established? What rules create a separation of purpose? How well does the separation of purpose match the separation of powers? In what ways do these institutions affect policy making?

To get a handle on these questions, our case studies look primarily at the right column in Table 1.1, examining the effects of variations among presidential regimes. While much of our theory is abstract enough to be applied to any political system, our emphasis on presidential systems means that many interesting questions about a separation of purpose in unified regimes remain outside the scope of this book.<sup>9</sup> At the same time, three advantages are derived from focusing on presidential systems. First, we can control basic constitutional arrangements – i.e., presidentialism and parliamentarism – in order to better isolate the effects of other institutions, such as bicameralism and electoral rules. Second, we can discuss how variations in important dimensions *within* presidential regimes affect gridlock, stalemate, responsiveness, stability, and accountability. Moreover, by doing fewer but more in-depth case studies, we may more closely analyze policy making and political outcomes than would be possible if we were to do more, shallower case studies.

<sup>8</sup> See, for example, Lijphart 1992; Shugart and Carey 1992; and Linz 1994.

<sup>9</sup> See Laver and Shepsle (1996) for more on unified regimes.

## Introduction

### THE SEPARATION OF POWERS AND THE SEPARATION OF PURPOSE

For this reason, that convention which passed the ordinance of government, laid its foundation on this basis, that the legislative, executive, and judiciary departments should be separate and distinct, so that no person should exercise the powers of more than one of them at a time. (James Madison, *Federalist* 48)

In order to lay a due foundation for that separate and distinct exercise of the different powers of government, which to a certain extent is admitted on all hands to be essential to the preservation of liberty, it is evident that each department should have a will of its own; and consequently should be so constituted that the members of each should have as little agency as possible in the appointment of the members of the others . . . Were the executive magistrate, or the judges, not independent of the legislature in this particular, their independence in every other would be merely nominal.

But the great security against a gradual concentration of the several powers in the same department, consists in giving to those who administer each department the necessary constitutional means and personal motives to resist encroachments of the others. (James Madison, *Federalist* 51)

There are nearly as many ways to separate power and purpose as there are democracies. The first part of this volume asks, what are the implications of each choice? To begin, we can measure the degree of separation of power in terms of the potential number of “veto players” in a political system.<sup>10</sup> In a pure dictatorship, a single individual holds the only veto, whereas in a system of unanimous rule, every person possesses a veto. The likelihood that a single individual or faction can control all of the vetoes in a system is expected to decrease, or at least not increase, with an expansion in the number of veto players. Alternatively, expanding the number of veto players is expected to increase, or at least not decrease, the number of different interests involved in political decision making. Therefore, this choice over the number of veto players is a crucial constitutional decision.

The number of veto players is only half of the story, however, because it ignores the effect of a separation of purpose. If power is separated, but purpose is unified, then the effective number of vetoes may be near one, as each separate institution is working toward a common goal, with jointly determined payoffs. By contrast, if each veto player’s payoffs are

<sup>10</sup> A veto player is a person, group, or faction who, through their control of an office, post, or branch of government, can reject any proposed changes to existing policy.

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independent from the others (e.g., their electoral fates are independent of one another), then the effective number of vetoes may be near the maximum number of vetoes.

In Chapter 2, Cox and McCubbins outline a general framework for understanding the separation of powers, of which presidentialism is an important variant, and the separation of purposes. They argue that the separations of power and purpose work together to establish two key tradeoffs with respect to policy outcomes. The first tradeoff is between a political system's *decisiveness* (i.e., its ability to make policy decisions) and its *resoluteness* (i.e., its ability to commit to established policy decisions). The authors contend that a polity's ability to change or to commit to policy depends heavily on what they call the *effective number of vetoes* in political decision making. Cox and McCubbins use this term to represent two salient aspects of the political process: the number of political actors that possess a veto over policy change, and the conflict of interest between those actors. In a polity in which the effective number of vetoes is large, changing policy will be difficult, but committing to policy will be relatively easier. The reverse will also be true. The fact that this tradeoff is determined jointly by the separations of power and purpose has been largely overlooked in the modern literature. However, the tradeoff between decisiveness and resoluteness is apparent from the definitions: a more decisive polity, possessing a greater ability to make or implement policy changes in the short run at least, must necessarily be less resolute, and thus less likely to be able to maintain the new status quo. By contrast, a more resolute polity must necessarily be less able to implement or even decide on policy changes, and hence must be considered less decisive. As Cox and McCubbins argue, each extreme along these dimensions has undesirable consequences. At one end, a polity that lacks decisiveness and is prone to gridlock will prove incapable of addressing pressing policy problems when they arise. At the other extreme, a polity that is irresolute will be threatened by policy instability.<sup>11</sup>

Cox and McCubbins further contend that a second tradeoff is implied by the separations of power and purpose, over the *public- and private-regardedness* of the policy produced. In other words, the extent to which the policies produced by a given system resemble public goods, improve allocative efficiency, and promote the general welfare versus funneling private benefits to individuals, factions, or regions, in the form of proj-

<sup>11</sup> See, e.g., North 1981, 1990; World Bank 1995; and Levy and Spiller 1996.

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ects, subsidies, and tax loopholes depends at least in part on the country's choice of basic political institutions.<sup>12</sup> Cox and McCubbins argue that the greater the number of effective vetoes, the more private regarding will be the policies enacted; the reverse is also true. This outcome is a consequence of bargaining among veto players, where each veto player will be able to demand, and receive, side payments in the form of narrowly targeted policies. Thus, when the effective number of vetoes is great, even broad public policy will be packaged as a set of individual projects, or it will be packaged with narrowly targeted programs, tax relief, and so forth.

In Chapter 3, Shugart and Haggard extend this general theoretical exploration with their discussion of institutional variation among presidential systems.<sup>13</sup> Shugart and Haggard look at the relationship between key features of the structure of presidential democracies and the tradeoff between decisiveness and resoluteness. They divide the key presidential institutions first according to whether they affect the president's *reactive* (e.g., veto) versus *proactive* (e.g., decree authority) powers, and second according to how they influence the separation of purpose between the legislative and executive departments.

Shugart and Haggard then argue that the more reactive powers a president possesses, the more resolute (i.e., less decisive) will be the policy-making process; while the more proactive powers a president has, the more decisive (i.e., less resolute) will be the process. Although it is impossible to determine the sum effect of increasing both reactive and

<sup>12</sup> While usually regarded as corruption or inefficient side-payments by economists, Cox and McCubbins argue that the use of public policy for private gain, known in the literature as distributive policy, or colloquially as "pork," need not have negative consequences for a polity. Since an increase in transactions costs goes hand-in-hand with an increase in the effective number of veto players, it may in fact be the case that pork is the most efficient political currency with which to pay these transactions costs. Pork may then be the currency with which the "market" for policy change is completed. Furthermore, what may appear to be pork to some may be a collective good for some other faction that is simply indivisible. For example, if a port or a canal is needed to improve allocative efficiency, then the fact that it is built in one legislative district or province and not another does not imply that there is no social welfare gain; it only implies that some members of society gain disproportionately. But despite the inequality, the net improvement can be expected to be positive.

<sup>13</sup> Despite widespread academic enthusiasm for parliamentarism, many newly developing countries have opted for presidential rule. See, e.g., Shugart and Carey 1992; Mainwaring and Shugart 1997a.



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proactive powers, it is clear that the *absence* of both implies that the legislature is essentially unchecked, in which case, the system will be less resolute. In addition, they observe that in presidential systems where the connection between voters and executive formation does not run through legislators, legislators themselves are likely to be less decisive (even when the presidency is proactive, and hence decisive). Legislators in presidential systems are less dependent on their party's national reputation than in parliamentary systems, in which the connection between voters and government runs through legislators.<sup>14</sup>

## COMPARATIVE CASE STUDIES OF THE SEPARATIONS OF POWER AND PURPOSE IN PRESIDENTIAL SYSTEMS

In the second part of the book the contributors test a number of the hypotheses presented in the first part by Cox and McCubbins and Shugart and Haggard, concerning the relationship between institutional choices and policy outcomes. Specifically, the authors examine how institutional variations affect policy outputs in four countries: Argentina, Chile, Taiwan, and Poland. Argentina, Chile, and Taiwan are presidential systems; Poland is a premier-presidential system in which the president holds a veto. These case studies were chosen to allow the authors to compare them to one another while controlling for one crucial constitutional factor – the institutional separation of powers. These comparisons are particularly fruitful because there exists ample variation on other institutional dimensions, including the range of presidential powers and the electoral and party systems.<sup>15</sup> The choice of these countries also allows us to exploit temporal variations between authoritarian and newly democratic rule within each country. Thus, to some extent, the empirical studies follow Lijphart's (1971) most similar systems design enabling the authors to focus on specific institutional variations rather than resorting to broad claims about general country differences.<sup>16</sup> The goal of these studies is to test whether the evidence refutes or supports the hypotheses presented in the theoretical section.

<sup>14</sup> This feature applies only to pure presidential systems, and not to either parliamentary or premier-presidential systems, in which the connection between voters and government formation, indeed, does run through legislators.

<sup>15</sup> In Poland, the president has significant reactive (veto) power, but minimal proactive powers; in contrast, the presidents of Argentina, Chile, and Taiwan have strong reactive and proactive powers.

<sup>16</sup> See Przeworski and Teune 1970.



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Despite the dominance of the case study approach in comparative politics, the utility of case studies for testing theories is by no means universally accepted. Because case studies do not generate sufficient amounts of data, they suffer from a fundamental “degrees of freedom” problem (Campbell 1975). Since such models often have more independent variables than observations, scholars such as King et al. (1994, 44) conclude that “as currently practiced, [case studies] often do not meet the standards for valid inference.” This does not mean, however, that carefully designed and implemented case studies cannot be used to test theories. Indeed, medical researchers often study individual cases to investigate the efficacy of a new treatment. Evolutionary biologists test modern theories of evolution by examining a single, representative case. Moreover, case studies can be used, as we do in this volume, to develop and refine theory.

The problem, then, is not that case studies are antithetical to the scientific method. The problem is rather that case studies have not traditionally been used to test more general theories. In order to use a case study as a valid test, it is crucial first to state the theory’s predictions in a manner that permits evaluation. Predictions often take one of two forms: They give us *sufficient* relationships between variables, in the form of “if A then B”; or they give us *necessary* relationships between variables of the form “B only when A.” We must consider, however, that predictions from a theory may only be true within some context (i.e., only when other conditions are met). When this is the case, we must be careful to state and measure these conditional variables. Steps must also be taken to guarantee that the case being studied is a close analogy to the theory being evaluated. Thus, a case study serves as a critical test of a theory only when we have reliable measures for important variables, when specified contextual conditions are met, and when the case is a close analogy to our theory.

## OUR VARIABLES

In using case studies as critical tests, we must be careful when we define and operationalize the variables of interest. This includes the independent institutional variables as well as the dependent policy variables. Indeed, to perform effective comparisons of institutional effects, we must move from the abstract institutional categories in the theoretical chapters to specific institutional arrangements. To do this, it is necessary to dis-

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aggregate both broad institutional characteristics and the key policy issues we believe institutional analysis can explain.

#### *Dependent Variables*

The case studies address three major policy issues: budgeting, privatization, and electricity regulation. Fiscal policy is clearly central to the conduct of national economic policy and has played a central role in recent efforts to achieve macroeconomic stability in developing countries. Privatization of state-owned enterprises is an important means for promoting economic growth and efficiency. Electricity regulation was chosen because it exemplifies the difficult nature of adopting market-oriented policies. It is increasingly recognized that privatization and marketization promise efficiency gains and higher growth, but only if accompanied by a credible and stable regulatory environment, both of which have their roots in the constitutional and political order.

In this volume, we address several questions about reform in each of these three policy areas. First, we ask why some governments implement reforms quickly and decisively, while other governments are marked by delay and indecision. Second, we ask why is policy making sometimes characterized by responsiveness to the median voter and to overall social welfare, while at other times it is characterized by responsiveness to narrow interests?<sup>17</sup> Finally we ask, what explains variation in the stability of policy once it is enacted (i.e., the resoluteness of policy)? Furthermore, once a government passes legislation, do agents and markets believe that it will persist, or do institutions send signals that policy is easily reversible?

As we will see, there are interesting tradeoffs among these dimensions of policy. Systems that are decisive need to develop other mechanisms for signaling that policy is stable, since the ability to change policy easily also implies that policy can be reversed. Conversely, systems where the policy status quo is hard to change are resolute, but they may prove dangerously indecisive, especially in the face of shocks or crises.

#### *Independent Variables*

In the empirical chapters, we divide the key institutional variables into four categories, each of which has some effect on both the separation of

<sup>17</sup> Examples of these interests are geographic constituencies, interest groups, and influential political supporters.