

Chapter Two

The Institutional Determinants of Economic Policy Outcomes

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I. INTRODUCTION

Why do some democracies choose economic policies that promote economic growth, while others seem incapable of prospering? Why are some polities able to provide the public goods that are necessary for economic growth, while others turn the machinery of government toward providing private goods? Why are some countries able to make long term credible policy commitments, while others cannot?¹

In what follows, we present a theory that argues that the diversity of economic policies is rooted in the diversity of democratic institutions in each country. Each polity, according to the divisions and necessities of its society chooses a set of democratic institutions to resolve its basic political problems. These institutions define a sequence of principal-agent relationships (Madison, Dahl 1967), commonly numbering at least three. First, the sovereign people delegate decision-making power (usually via a written constitution) to a national legislature and executive. The primary tools that the people retain in order to ensure appropriate behavior on the part of their representatives are two: the power to replace them at election time; and the power to set the constitutional rules of the political game.

A second delegation of power occurs when the details of the internal organization of the legislature and executive are settled. This process entails the creation of

ministerial positions, of committees, and of agenda control mechanisms. Here too constitutional regulations of the relationship between the legislature and the executive (is the legislature dissoluble? can cabinet ministers sit in the legislature?) come into play.

Third, the legislature and the executive delegate to various bureaus and agencies to execute the laws. In this delegation, administrative procedures and law set the terms of the delegation (Kiewiet and McCubbins 1991; McCubbins et al. 1987, 1989).²

To regulate these delegations, institutional arrangements are often employed to assure that delegation does not become abdication.³ One key device is to separate power among a number of agents, and to separate the purposes of those agents, such that no single authority can control the outcome of delegation at any single stage. That is, by setting up ambition to counter ambition, the principals attempt to prevent their agents from taking advantage of their delegated authority. However, such arrangements are imperfect, as they entail certain tradeoffs. Our paper studies these tradeoffs and the consequences, direct and indirect, of institutionally separating power and purpose. The structure of these constitutional principal-agent relationships affects the form of public policy.⁴

The separations of power and purpose together establish two key tradeoffs with respect to democratic outcomes. The first is between a political system's *decisiveness* and its *resoluteness*. The tradeoff that any country makes on this dimension -- between having the ability to change policy and having the ability to commit to policy -- depends heavily on the effective number of vetoes in the political system. Polities that choose to locate at either extreme will be ungovernable. At one end, a polity that lacks decisiveness will encounter gridlock and stalemate. At the other end, a polity that lacks resoluteness will

be threatened by a lack of stability.⁵ The second tradeoff implied by the separations of power and purpose in a political system is between the *private-* and *public-regardedness* of policy produced.

The structure of this essay is as follows. We begin by discussing in greater detail the two tradeoffs implied by the choice of institutions. We then perform a step-by-step analysis of the sequence of delegations of power from the citizenry to elected officials, looking first at the electoral and constitutional rules of the state and asking which rules seem to promote or hinder two *bêtes noires* of classical democratic theory: state “ungovernability” and the excessive influence of special interest groups. We next turn to the other delegations noted above, first that involving the internal organization of legislatures and executives, then that from legislatures to the bureaucracy. In the final section we derive implications for the case studies contained in part II of the volume.

II. DEMOCRATIC TRADEOFFS

In exploring the consequences of separating power, it is essential to note that there are two distinct elements in any functioning separation-of-powers system. First, there is the legal separation of power itself—provisions that both houses of a bicameral legislature must approve legislation, for example.⁶ Second, there are rules intended to ensure that a single interest does not gain control all the relevant offices or institutions, which would remove the effectiveness of the legal checks. That is, there must also be a separation of purpose.

It may be difficult to define the minimum separation of purpose—between, say, president and assembly—sufficient to ensure that the separation of power in fact provides some insurance against tyranny. But the extreme cases are clear enough. On the one

hand, we have Mexico before the late 1990s, Taiwan before the late 1980s, or the U.S.S.R. as cases in which the unity of purpose provided by a single party was sufficiently great so as to defuse the political importance of parchment divisions of power. On the other hand, we have episodes of “divided government” in the U.S. or “cohabitation” in France as cases in which those controlling different institutions clearly had different political preferences, in other words when the separation of power coincides with a separation of purpose.

Usually the term “divided government” refers just to presidential systems in which no single party controls both the assembly and the presidency. But here we extend the definition: *Government is divided when no single political party controls all separate powers*; otherwise, we shall say that *unified government* exists.⁷ Divided government thus arises not just when the assembly and the presidency are in different partisan hands, but also when the two houses of a bicameral legislature are, or when the presidency and the courts are, and so forth.⁸

Counting the Number of Veto Actors

Although we use the term “divided government” to indicate a simple yes/no dichotomy, a finer-grained distinction can be made by counting the number of separate veto actors. Following Tsebelis (1995), we define a *veto actor* on a given issue dimension as the person, political party, or faction of a political party, that exercises a veto on that issue by itself.

The motivation behind this definition can be described as follows. First, a veto actor must be an actor, not just any collection of office-holders. If a single individual, such as a president, holds a veto over policy change, then that individual is a veto actor.

But to exercise a veto held by a collectivity, such as an assembly or legislative committee, will require collective action. The opportunity and transactions costs of collective action may be considerable, and are rarely overcome without a suitable organizational structure serving to mitigate these expenses (Cox and McCubbins 1993; North 1990; Olson 1965; Williamson 1975).

Operationally, then, while we take all individuals to be actors, groups of individuals are actors only if they have some organizational basis—*de minimis*, recognized membership and leadership—that will facilitate their collective action. Thus, we do not count as veto actors all majority coalitions in a majority-rule legislature, because not all these coalitions have an organizational basis. Nor do we count as veto actors all majority coalitions within a committee that possesses agenda power, because not all those coalitions have an organizational basis.

Our second criterion is that a veto actor must have a veto. Operationally, we look for subunits of the polity—legislative chambers, legislative committees, presidents—to which agenda power has been explicitly delegated. (If a party or faction controls this subunit, we say it has a veto.)

As the purpose of this definition is to make it possible to count the number of veto players in a system unambiguously, let us provide a few examples. In a unicameral parliamentary system such as New Zealand, were a faction-free party to secure a majority of seats in parliament, and were all policy made in cabinet, there would be just one veto player: the majority party. Were a three-party minimal winning coalition to form in such a system, how many veto players would there be? On an issue on which all three parties had very similar views, we might say there was still one veto player. On an issue in

which each party had a distinct view, we would say there were three veto players: any one of the three parties can “veto” a bill, and any party's veto carries weight because they can threaten to bring down the government if overridden. This is not as clear a veto as that exercised by a majority party because it simply refers to a party that has the power to impose a considerable cost (bringing down the government), if its “veto” is not respected, rather than to one that has the votes by itself to defeat a measure. One can object that the party seeking to veto a bill will also be out of government, so that its veto threat lacks credibility. In principle, the best course would be to count as a veto actor only those parties with credible veto threats; in practice, this may be very difficult and a workable second-best solution is to count all pivotal parties in a coalition as possessing a veto.

Consider now a bicameral, presidential system like the U.S., with strong legislative committees. If the Democrats control the Presidency and the House, while the Republicans control the Senate, the number of veto players on defense matters might be four: the Democratic President and House majority; the Republican Senate majority; the Senate Republicans on the Senate Armed Services Committee; the House Democrats on the House Armed Services Committee. How can the Republican contingent on the Senate Armed Services Committee be counted as a faction? To qualify as a faction, they must both have distinctive preferences on defense issues and have an organizational basis for collective action. They do have an organizational basis for collective action: the committee caucus, with the chair of the committee as leader. Whether they do have distinctive preferences is an empirical matter that could be addressed in a similar fashion as Cox and McCubbins (1993).

In what follows, we shall consider the "typical" number of veto actors across all political issues, rather than take an issue-by-issue perspective. In taking this aggregate view, the issue of how to count subunit vetoes becomes more problematic—one would not wish to examine the preferences of all subunits—and so some shorthand rules must be adopted, such as counting as a veto actor any subset of a party that controls a veto, ignoring the issue of whether their preferences are distinctive, or if their preferences are not completely distinct from the remainder of the party, we may opt to count none of them.

In addition to referring to the number of veto actors, we shall also refer to the “effective number of vetoes” to emphasize that the veto points are held by actors with distinct preferences. At a constitutional level, the effective number of vetoes is thus determined by the interaction of two factors: (1) the institutional separation of powers; and (2) the separation of purpose, which depends *both* on the electoral code used to “filter” societal interests into seats in the national assembly (and other offices) *and* on the diversity of preference in society.

What are the policy consequences of increasing or decreasing the number of veto players? In the rest of this section, we consider how the effective number of vetoes affects two central democratic tradeoffs: those between decisiveness and resoluteness, and between public- and private-regarding policy.

Decisiveness v. Resoluteness

Decisiveness is the ability of a state to enact and implement policy change. Resoluteness is the ability of a state to commit to maintaining a given policy. How a state

resolves this tradeoff is greatly influenced by the effective number of vetoes that the system typically generates.

As the effective number of vetoes increases, there is an increase in the transactions costs that must be overcome in order to change policy. As more actors must be taken into account in a policy logroll, it will become increasingly difficult to structure negotiations. As more interests are provided with vetoes, it becomes increasingly difficult to ensure that every party to the negotiations receives sufficient value to accept the deal. Hence changing policy becomes increasingly costly as the number of parties to a negotiation, or as the diversity of their preferences, increases. Costs hinder policy change, thus: *As the effective number of vetoes increases, the polity becomes more resolute, and less decisive.* The reverse is also true.⁹

We may see indecisiveness manifest itself as stalemate or gridlock, with few policy changes and more time-consuming negotiations required to pass legislation. We may see irresoluteness manifest itself as rapid or frequent policy change.

Our argument is similar to that of Buchanan and Tullock (1962), who, in their study of collective action, emphasized the costs that might arise from making a decision. In particular, they recognized the transactions costs that are incurred in negotiating an agreement, which they labeled *internal costs*. As the share of voters whose agreement is required rises, so do the internal costs of reaching a decision. So at one extreme, unanimous rules entail enormous internal costs, while at the other extreme, dictatorships create few internal costs.¹⁰

We can place various voting rules on a continuum, depending on the effective number of vetoes established by the decision rule, and map directly to the internal costs.

For instance, a supermajority rule, requiring either sixty percent or two-thirds of an electorate, would impose greater internal costs than would a simple majority rule. We can thus restate our result: When internal costs are greater, the polity becomes more resolute and less decisive. The reverse is also true.

Public-regardedness versus Private-regardedness of Policy

The second tradeoff implied by the separations of power and purpose in a political system is between the *public-* and *private-regardedness* of policy produced. In other words, how much of the policy making is distributive in intent, and how much aims to provide public goods, improve allocative efficiency, and to promote the general welfare? The greater the number of effective vetoes, the more private regarding will be the policies enacted. This too 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.

III. State Indecisiveness and Irresoluteness

A major theme of this essay is that state “ungovernability”—whether the inability to decide (indecisiveness), the inability to stick to a decision once made (irresoluteness), or the pursuit of inconsistent policies by different “sub-governments” (balkanization)—is typically a joint product of constitutional separations of power and electorally-driven separations of purpose. In this section, we consider the first two sources of ungovernability—indecisiveness and irresoluteness—in greater detail.

3.1 The Problem of Indecisiveness

Several branches of comparative research argue that dividing or separating power—creating veto points in the structure of the state—can lead to state indecisiveness. When divided government occurs, as it has frequently in the U.S. and Latin America of late, a broad syndrome of ill effects is said to arise. These problems include “institutional warfare” of varying intensity, unilateralism (where the executive and the legislature attempt to circumvent each other in implementing policy), various forms of gridlock, greater fiscal pork and rents, and a tendency toward larger budget deficits.

An example of institutional warfare is the sequence of moves and countermoves concerning impoundments taken by President Nixon and the (Democratically-controlled) Congress during the early 1970s. Nixon, in an effort to stall or derail portions of the Great Society programs enacted under his predecessor in office, Lyndon Baines Johnson, began to impound funds for certain programs that had been duly authorized and appropriated. In so doing, he was greatly expanding an executive power of impoundment that previously had been used in a non-controversial fashion. Had he not been challenged, the consequence would have been a substantial shift in power to the executive, something along the lines of a suspensory line item veto. In fact he was challenged. Congress passed the Budget and Impoundment Control Act of 1974. Among other things, this act spelled out the limits on the executive’s power of impoundment, reasserting congressional primacy in budgetary matters (Kiewiet and McCubbins 1991; Schick 1980).

Unilateralism can be illustrated by the pursuit of separate foreign policies regarding Nicaragua by the Reagan Administration and the Wright Speakership. The

Administration, knowing that it could not secure the assent of Congress for its hard-line policy, pursued this policy anyway via covert action (the financial aspects of which came to light in the Irangate scandal). The Speakership, knowing that it could not secure the assent of the Administration for its conciliatory policy, pursued this policy anyway via shuttle diplomacy centering on the office of the Speaker. Such episodes have been rare in U.S. politics but unilateralism by Latin American Presidents is a more frequent occurrence. Collor, in Brazil, to take a recent example, attempted to rule by decree, entirely ignoring the statutory process and the legislature. Menem, in Argentina, has done this with greater success, as he was not impeached when he did so.

Gridlock is perhaps the most frequently diagnosed problem of divided government in presidential systems (cf. Linz 1990; Shugart and Carey 1992, p. 33; Mainwaring and Shugart 1997; Cox and Kernell 1991). If neither side can pursue policy unilaterally, and neither will acquiesce in the policies of the other, then the result is stalemate. In some ways this is a natural consequence of the bargaining situation in which the parties find themselves. If two separate parties or coalitions each control one branch of government, and each has a veto, then they must come to some agreement for any new policy to be enacted via the ordinary constitutional process. But delay is one of the primary bargaining techniques in such situations: by refusing to agree a party shows willingness to incur the costs of delay (which, in the case of budgetary politics, may include closure of portions of the government). Thus public wrangling and interminable delay are natural features of the politics of bargaining under divided government.

Finally, McCubbins (1991a; 1991b; see also, Alesina and Carliner 1991, Alesina and Rosenthal 1995, Alt and Lowry 1994, Fiorina 1992; Jacobson 1990; Kiewiet and

McCubbins 1991) shows how the constitutional separation of powers in the United States can lead to dramatic increases in spending when one of the branches (i.e., the president, the Senate, or the House) is controlled by a different party from the other two. As each branch holds a veto over the others, successful legislation must accommodate each branch's policy preferences. So long as each branch prefers engaging in a logroll to get the spending *it* wants to acting as a blocker to ensure that the other branches don't get the spending *they* want, this provides a convincing explanation for the explosion of U.S. government deficits in recent years.¹¹ If, by contrast, at least one of the veto players prefers to deny policy to the others, then the result will be a veto and, hence, no new policy at all.

3.2 The Problem of Irresoluteness

By contrast to indecisive polities, an irresolute state is one that finds it easy to make policy; in fact, it is *too* easy. Irresoluteness means that a country cannot sustain a policy once it has been decided. Irresoluteness may come about due to shifting coalitions in a multiparty system, or due to lack of cohesion in a majority party, but in either case there is a clear relationship with the absence of checks and balances. That is, irresoluteness arises when there are fewer effective vetoes.

One consequence of irresoluteness is the lack of *credible commitment* (Root 1994; World Bank 1995; Levy and Spiller 1996). This can mean a variety of things, from a country failing to uphold its promises to international investors or the IMF,¹² to never carrying out a policy compromise. In the following section, we connect the tradeoff between indecisiveness and irresoluteness with the institutional choices that a country

makes, paying particular attention to the institutions that govern the legislative and electoral processes.

IV. Separating Power and Purpose

If the tradeoff between indecisiveness and irresoluteness depends on the effective number of vetoes, the next question concerns how this number is determined. As indicated above, the effective number of vetoes increases when a polity has both many institutional veto points and political actors with diverse interests controlling those veto points. In this section, we consider the separation of power (multiplication of veto points) and purpose (increasing the diversity of preference of actors controlling veto points) further.

4.1 Separating Power

How exactly is the separation of powers achieved in reality? The best-known techniques of separating power are presidentialism (separating the executive from the legislature), bicameralism (creating more than one house of the legislature) and federalism (by which separate spheres of action are created for national and subnational governments). In each case, a common observation in the literature is that separating power increases the difficulty of action. A long literature in the U.S., dating back to the work of Ford (1898), views the separation of executive and legislative power in the U.S. federal government as inimical to “energetic” or “effective” governance. Although less often blamed for inaction, as Tsebelis (1995) has argued, bicameralism also can make policy changes more difficult (see also Tsebelis and Money 1997). And the veto power

of state governors in Brazil (Mainwaring 1991) or of senators in the U.S. (Harris1993) shows one way in which federalism too is seen as making policy change more difficult.

In the rest of this section, we discuss two lesser known species of separating power—judicial review, and regimes of exception—in a bit more detail. The main point is again that effective separations of power have often been identified as preventing departures from the status quo.

The judiciary may constitute another veto gate in the governmental process, if it is both independent and endowed with the power to judge the constitutionality of proposed or enacted legislation. In some countries, such as France, the judiciary's role is to interpret the constitution and reject legislative acts contrary to that interpretation (i.e., to declare acts null and void).¹³ In other countries, while the judiciary cannot reject legislative acts outright, it can choose the amount of “force” employed in enforcing them. This ability gives the judiciary in countries such as Germany and Canada something akin to a power of judicial review (i.e., they can *de facto* nullify acts of the legislature, if not *de jure*). Further, in every country the judiciary is required to interpret statutes. This involves not only interpreting what the legislature wrote in a particular act, but also interpreting the act in light of the entire legal system, including other legislative enactments. Legislatures rarely provide enough detail in their enactments to deprive the judiciary of all interpretative discretion. Often too it is difficult to reconcile one statute with another, and the conflict between new and old statutes leaves the courts further discretion. The judiciary's interpretative discretion gives it a limited check on legislative authority. Courts in many countries also have a check on administrative and executive actions. Often there exist special courts to hear appeals to administrative and executive

decisions. In few countries, however, are the courts independent of the elected branches of government, and in very few countries do the courts have the means to enforce their decisions. For courts to be independent of the legislature and the executive, it must be difficult for the legislature and the executive to remove or sanction judges (e.g., judges have a fixed term of office, or life tenure, and the legislature must pass a bill of impeachment to remove a judge). While few countries have opted for an independent judiciary, such as in the United States, judges in many countries are partially insulated from political tampering.

If judges can veto policy, then any legislative project must clear one more hurdle before it becomes law. In principle, the existence of this additional hurdle might translate into gridlock--an inability to pass and sustain legislation. In practice, few states have a judiciary that is simultaneously independent and endowed with a strong power of judicial review of legislation, so that the importance of judicial review is less as a means to prevent legislation than as a means to continue the policy battle by other means after legislation is enacted.

Finally, the military constitutes an important veto gate in many countries, often defining the boundaries of acceptable policy change. The military and its supporters may have policy preferences on some issues, and may be willing to ensure its demands are met through force of arms. The military may also be given a constitutional role to protect the state against certain unwanted policy changes, and may, on its own accord, or at the behest of the national government, intervene to set policy right (Loveman 1993, 1998). Indeed, as Loveman argues, most of the military interventions in Latin America have been the result of constitutional actions by the military, or the government, under a

regime of exception. As he shows, most constitutions contain provisions whereby, during times of war or crisis, the policy-making process defined by the constitution may be set aside. In each case the military uses its power to reject policy changes that it deems harmful.

The general point of this section is quite simply that the more powers are divided, the more likely is state resoluteness, and the less likely is state decisiveness. We recap this point in Table 2-1 below. We have illustrated this general point by five examples, concerning the separation of executive and legislative powers (presidentialism), the separation of legislative powers (bicameralism), the separation of governmental levels (federalism), the separation of legislative enactment and interpretation (judicial review), and regimes of exception. Madison argued that separating powers may be a risk-avoidance strategy, since it at very least keeps the government from harming the public, or acting tyrannically, by keeping it from doing much of anything. But stalemate could also be damaging if it keeps the state from effectively meeting its challenges.

[Table 2-1 about here.]

4.2 Separating Purpose

Our goal in this section is to address the manner by which political actors with diverse preferences come to control separate vetoes within the legislative process. Our central variable is the party system, which we believe is shaped by a number of institutional factors, particularly the electoral system. Electoral systems as understood here are sets of rules--usually statutorily specified, but sometimes stemming from constitutional provisions or administrative decrees--that govern four broad aspects of elections: the structure of electoral districts, entry, voting, and the conversion of votes

into seats. An electoral district is a geographically-defined area within which votes are counted and seats allocated. A given electoral district can be characterized in terms of the rules that govern entry (who can get on the ballot?), voting (how are voters allowed to mark the ballot?), and the conversion of votes into seats within it. The last step--the conversion of marked ballots into an allocation of seats among the competing parties and candidates--is a purely mathematical one: given any set of marked ballots, a set of rules conventionally known as the *electoral formula* specifies a unique allocation of seats. We will also use the term “district electoral system” to refer to the rules governing election within a particular district. The national electoral system can then be thought of as composed of a set of (variously interrelated) district electoral systems.¹⁴

The general point here is that more individual politicians who control their own electoral fates, more factions, and more parties mean more independent participants in the legislative bargaining process that produces public policy, thus making it harder to initiate and sustain collective action in pursuit of public goods. We shall illustrate this tendency by considering some points raised in the literatures on governmental stability in parliamentary systems, divided government in presidential systems, and the nexus between personal votes, weak parties, and a polity’s inability to provide public goods (cf. Haggard and Webb 1993, p. 150).

Personal votes, weak parties, and collective action

The extent to which individual politicians cultivate a personal vote is an important characteristic of a political system, one whose consequences and correlates reach far beyond the electoral arena. Various scholars have argued that systems in which personal votes are large will promote, among other things, legislative rules that decentralize

decision-making power to committees and away from party or government leaders (Cain, Ferejohn and Fiorina 1987, pp. 224-28; Cox 1987b; Katz and Sala 1996; Thies 1994; Mayhew 1974; McCubbins and Rosenbluth 1995), lower levels of party cohesion on legislative votes (Cain, Ferejohn and Fiorina 1987, pp. 12-15; Cox 1987b; Mainwaring 1991, p. 29; Rose 1983, p. 39; Cooper, Brady and Hurley 1977), pluralist rather than corporatist patterns of interest group bargaining (Cain, Ferejohn and Fiorina 1987, pp. 18-21),¹⁵ structural corruption (Reed 1994), and--naturally deriving from the foregoing tendencies--governmental paralysis, especially as regards the provision of collective goods (Fiorina 1980; Burnham 1982; Mainwaring 1991; Reed 1994; Cox and McCubbins 1993; Schick 1980). In a nutshell, large personal votes are linked to weak parties and weak parties mean that important collective goods go un- or under-supplied.

The key assumption driving these results are that (1) individual legislators seek reelection (Mayhew 1974); and (2) in some electoral systems, cultivating a personal vote is an optimal reelection strategy (Fenno 1978; Cox and Rosenbluth 1993; Weingast, Shepsle and Johnsen 1981; McCubbins and Rosenbluth 1995; Carey and Shugart 1995). When both assumptions obtain, it follows that legislators will seek to create a personal vote. There is a large literature on what they might do to this end, and widespread agreement that the chief means are two: (1) providing private or local public goods and services to constituents; and (2) providing particularistic services and favors to special interest groups, in return for campaign contributions.¹⁶

We shall consider the exchange between legislators and interest groups at greater length later. As regards the wooing of constituents, the reason for the dominance of targetable benefits in personal vote strategies is straightforward. Individual legislators

cannot credibly claim much credit for changes in national public policy (Mayhew 1974; Fiorina and Noll 1979; Arnold 1990), but they can and do credibly claim credit for public works projects located in their district, for patronage appointments, and for other particularistic benefits they helped to deliver. Thus, when an electoral system creates incentives for legislators to cultivate a personal vote, legislators typically develop a “homestyle” (Fenno 1978)--a strategy for presenting themselves to their constituents--that features bringing “pork barrel” projects back to the district (Ferejohn 1974), providing ombudsman-like services to constituents (Fiorina 1977), and so forth (Wilson 1987).¹⁷

Pursuit of the means with which to create a personal vote--that is, pursuit of a supply of goods from the public sector and rents for constituents and special interests--affects the choice of legislative structure. To claim credit for goods and rents supplied by the public sector, it helps to be entrenched in a powerful committee that exercises differential control over a particular issue area--hence the legislative decentralization associated with personal vote systems (Cain, Ferejohn and Fiorina 1987). If individual legislators and committees are powerful, then interest groups need only be large enough to influence these actors, hence the pluralist interest group structure associated with personal vote systems. Putting these features together, one gets parties that cannot control legislative decision-making, cannot command the loyalty of their own members, and cannot avoid being torn apart by the competing and unaggregated demands of their own allied interest groups. The ultimate consequence in terms of policy is the aforementioned governmental paralysis.

Electoral structures thus influence the extent to which individual politicians can create their own electoral power bases. For example, closed-list systems militate against the pursuit of purely personal electoral reputations. In contrast, systems which give voters a single vote, which they must or can cast for an individual candidate (such as the U.S., U.K., Japan, Brazil, or Chile) make the pursuit of a personal vote--that is, a base of electoral support that derives from the candidate's own personal qualities and activities, rather than those of his or her party--potentially profitable. A mapping out of the incentives that different electoral systems present in this regard--whether to rely on broader party reputations or to craft distinctive individual reputations--has been attempted by Carey and Shugart (1995) and Myerson (1994).

Electoral structure and the number of parties

If characteristics of the party system—especially the number of parties and factions and the degree of politicians' independence—affect the level of state indecisiveness in important ways, then the next question concerns how party systems come to be fractionated (or not) to begin with. Electoral systems can be classified in many different ways. For the purpose of predicting the number of political parties that will be viable in a given system--an intellectual task broadly similar to that faced in the industrial organization literature of predicting the number of firms that will be viable in a given industry--a key consideration concerns economies of scale. If one thinks of a political party as a firm engaged in the production of legislative seats, then economies of scale exist whenever two groups can garner more seats as an electoral alliance than they can as separate parties. If substantial economies of scale do exist, then groups interested in winning as many seats as possible will face a strong incentive to form electoral

alliances (which, like the SDP/Liberal Alliance in the U.K., or the CSU-CDU in Germany, may become permanent). Viewing the matter in this way, the pertinent questions are: How many more actual votes will be got (per unit of “support” in the electorate) in alliance than separately? How many more seats will be got (per vote) in alliance than separately? We shall deal with the latter question first, as anticipations of votes-to-seats translations condition the translation of “support” into votes.

Most electoral systems give large parties a more-than-proportional share of seats (i.e., seat shares that exceed their vote shares), while giving small parties a less-than-proportional share. The larger this big-party bias, the greater is the incentive to form electoral alliances. This incentive can be partly characterized, in terms of structural primitives of the electoral system, by examining the minimum viable size of a party under a given system.¹⁸

Political scientists use the term *threshold of exclusion* to refer to the largest vote share that a party can win in a given electoral district and still not be guaranteed a seat. In the U.S. system, for example, a party can win exactly half of the votes cast in a given district and not be guaranteed a seat (it might tie with another party that also wins half the seats and thus face a coin flip to see who wins the seat); but if a party wins any more than half the votes cast, then it is guaranteed to win. Thus, the threshold of exclusion in the U.S. system is 50%. The threshold of exclusion has been calculated for a wide range of electoral systems (see, e.g., Lijphart and Gibberd 1977, and Laakso 1987) and its properties are well understood. This threshold is often taken as a rough estimate of the minimum viable size of a party, and taking its reciprocal accordingly gives a rough upper bound on the number of viable parties in a given district.¹⁹

Because many electoral systems are composed of districts of varying characteristics (not all are like the U.S. or Chile, in which every district returns the same number of members under the same rules), the upper bounds on the number of viable parties may differ from district to district. Deriving a single upper bound at the national level for complex systems is a difficult problem that the literature has not solved satisfactorily.²⁰ But for many systems a reasonable aggregate upper bound can be computed simply by taking the median upper bound across districts.

Voters who are instrumentally rational--that is, concerned solely with using their votes as instruments to affect the final seat allocation resulting from the election--will anticipate any big-party biases inherent in the translation of votes into seats. To the extent that their anticipations are accurate, they will not waste their votes on parties that are hopelessly out of the running, even if they prefer these parties to those that are in the running. Instead, instrumentally rational voters will vote for the most palatable of the parties that are on the margin between winning and losing, attempting to cast outcome-relevant votes. But the more voters who fear wasting their votes and so cast them strategically, the larger the potential gains to small parties or groups from combining their electoral resources, including their activists, attractive candidates, financial supporters, and so on. Strategic voting incentives thus act to put an upper bound on the number of viable parties in a system.²¹

A series of works have found that two key structural features drive the level of strategic voting in a given electoral system. The first is the “principle of seat allocation,” which summarizes some characteristics of the mathematical function that maps vote shares into seat shares. On the one hand, some systems award all the seats at stake to the

party or candidate winning the most votes. These we shall refer to as employing a winner-take-all principle of seat allocation. In these systems there are substantial incentives for aspirants to office to coalesce. Parties have an incentive to coalesce because the largest coalition or party takes all. If, however, the parties do not get their act together--and present the voters with too many parties chasing too few votes--the voters have an incentive to continue the process of coalition via strategic voting. Although almost all winner-take-all systems employ single-seat districts, it is possible to use district magnitudes larger than one. In São Tomé and Príncipe, for example, parties present lists in multimember districts, with the list garnering the largest vote share winning all the seats at stake. Increasing the district magnitude, while holding constant the winner-take-all principle, merely increases the incentives to coalesce.

On the other hand, some systems attempt to approximate an ideal of “proportional representation” in which seat shares equal vote shares. These we shall refer to as employing a proportional principle. Systems that employ a proportional principle of seat allocation also present parties and voters with some incentives to coalesce, but these incentives become progressively weaker as the district magnitude increases. If the district magnitude is one, then--as it turns out--all commonly used PR methods reduce to simple plurality and the incentives to coalesce are the same as those described above. As the district magnitude increases, parties can guarantee themselves a seat with increasingly small percentages of the vote (see above). This makes smaller parties viable as stand-alone entities, means that they do not have to enter into alliances or submerge their identities within larger parties, and reduces the incentives to vote strategically that voters face (cf. Cox 1994).

The second key structural feature that affects the level of strategic voting in a system is the “district magnitude,” by which we mean simply the number of seats that are to be filled in a given electoral district. In the U.S., for example, the district magnitude equals one in all House districts, while in Israel the whole nation serves as the electoral district, from which all 120 members of the *Knesset* are elected.

Adopting the terminology of Sartori (1968), we can say that systems are *strong* when they provide substantial electoral incentives to coalesce, *feeble* when they provide little or no such incentives. Systems with low district magnitudes *or* winner-take-all seat allocation formulas are strong; systems with high district magnitudes *and* proportional seat allocations are feeble. Strong systems put a meaningful upper bound on the number of parties, while feeble systems do not. Work by Duverger (1954), Sartori (1968), Cox (1987a, 1994, 1997), Palfrey (1989), Myerson and Weber (1993) and others provides some quantifications of these caps in idealized conditions (corresponding more or less to the frictionless inclines of physics):

- (1) Winner-take-all seat allocations cap the number of parties at two, regardless of district magnitude (Duverger 1954; Palfrey 1989; Cox 1994, 1997).
- (2) Proportional allocations in districts of magnitude M cap the number of parties at $M+1$ (Cox 1994, 1997; Cox and Shugart 1996).

Electoral structure and party factionalization

Electoral structures can also affect the number of factions that arise in a polity (for present purposes, factions can be defined as organized groups within parties that compete for control of valued resources within those parties, such as nominations, party leadership

posts, and campaign funds). In particular, systems which pit members of the same party against one another in direct electoral competition, tend to promote factionalism.

The specific electoral features that create intra-party electoral competition are various. One example is the use of “open” lists in systems of proportional representation, as is done in Brazil, Chile and Finland, for example. In a “closed” list system, voters are endowed with a single vote which they must cast for a particular party’s list of candidates. Voters thus have no direct ability to affect which of the party’s candidates actually represent them in the legislature--hence those candidates really cannot compete against one another. In an “open” list system, voters are endowed with a single vote which they must cast for an individual candidate.²² Seats are allocated first to parties, based on the sum of the votes of all the candidates of that party. If a party wins x seats, then the top x vote-getting candidates from that party get those seats. Voters thus directly determine which of a party’s candidates will win represent them in the legislature--hence those candidates face substantial incentives to compete against one another. Because candidates from a given party can hardly compete against one another by identifying themselves with the party at large, they face incentives to form factions in an effort to differentiate themselves from their intra-party competitors.

This basic logic--that factions are especially likely to be created in systems that pit members of the same party against one another in electoral competition, because they then seek a basis other than party on which to win elections--can fuel the formation either of large factionalized parties (as in Japan, Italy, Uruguay, or Colombia), of atomized parties (as in Brazil), or of alliances of smaller parties (as in Chile). In all cases, the

electoral system induces a more complex and less unitary structure to the component parties or alliances.

Summary

This section has reviewed the impact of electoral structure on the party system. Two main conceptual dimensions, along which electoral systems can be arrayed, have been identified. The first is the dimension ranging from “strong” to “feeble,” with the former providing strong incentives toward party and vote concentration, the latter feeble incentives. The second dimension orders electoral systems according to whether they induce “candidate-centered” elections and “personal votes,” or “party-centered” elections and “party votes.”

Both of these dimensions reflect a variety of structural features, but the key features that drive each dimension can be described as follows. First, systems that use more proportional methods of seat allocation and have larger district magnitudes are feebler, while systems that allocate seats more on a winner-take-all basis and have low district magnitudes are stronger. Second, systems that allow or promote intra-party competition for votes and seats promote more candidate- or faction-based electoral politics, while systems that disallow or hinder intra-party competition for votes and seats promote more party-oriented elections. Together these two dimensions capture most of the institutional variation that is consequential for political performance. In Table 2-2, we summarize the expected impact of each kind of electoral system on the party system in a two-by-two matrix that interacts the effects of the two dimensions.

[Insert Table 2-2 about here.]

The more feeble is the electoral system, the more parties will tend to populate the electoral system (although this also depends on the number of cleavages in the society). The greater the number of parties, the more likely that policy enactment requires deals that cross party lines. Negotiation costs may be particularly high in such a case, because multi-party policy deals can have electoral consequences that differ across the members of the policy coalition. Thus the more parties that must be involved in a given deal, the more likely is delay and gridlock. Additionally, every time there is a shift in the governing coalition, for example, the deal may be re-negotiated, which would have a destabilizing effect. So feeble electoral systems are expected to encounter more delay, gridlock, and election-induced instability.

Second, the more that individual politicians control their own electoral fates, the more parties, factions, and 'free-lance' politicians there will be. As a consequence, there will be more independent participants in the legislative bargaining process, and the transactions costs involved in policy making will increase substantially. The extent to which individual politicians cultivate a personal vote is an important characteristic of a political system, one whose consequences and correlates reach far beyond the electoral arena. Various scholars have argued that systems in which personal votes are large will promote legislative rules that decentralize decision-making power to committees and away from party or government leaders,²³ lower levels of party cohesion on legislative votes,²⁴ pluralist rather than corporatist patterns of interest group bargaining, structural corruption (Reed 1994), and—deriving from the foregoing tendencies—governmental paralysis, especially as regards the provision of collective goods.²⁵ In a nutshell, large

personal votes are linked to weak parties and weak parties mean that important collective goods go under-supplied or unsupplied altogether.

4.3 Summary

A schematic representation of the topics covered in this section is presented in Figure 2-1, below. State ungovernability arises as a multiplicative product of these two factors. A state with much constitutional separation of power may still be decisive if a single hierarchical party unifies the various separated powers. (Indeed, a standard argument about U.S. parties that one used to hear before the era of divided government is that they have served to make our highly divided system operable by just such a unification of interests across the branches of government; see American Political Science Association 1950; Fiorina 1980.) Similarly, a state faced with a fragmented party system may still be decisive if there is a single important office controlled by a single party (not that this would be desirable). It is only when there are many institutional veto points controlled by diverse interests that the problems of indecisiveness arise in full force.

[Figure 2-1 about here.]

To act decisively, an indecisive system uses private goods as the source of stability for public policy. That is, private goods become the basis of trades between politicians who join together to implement public policy. Because the flow of private goods continues only as long as the enacting coalition endures, the private goods enable politicians to forge a commitment and bond themselves to an agreement. In this case, then, pork should not be seen as inefficient, as it is essential for the implementation of

public policy. Indeed, little public policy would be implemented in the US, Japan, and Brazil without large amounts of private content. This is the subject of our next section.

V. Public- versus Private-Regarding Policy

Having dealt with the issue of state governability at some length, we turn now to investigate another classical complaint about democratic governance: the tendency of some types of systems to produce private-regarding policies. This complaint can be seen as inherent in democratic accountability: if politicians can be held to account at election time, then they will be responsive to whomever controls the resources they need in order to win (re)election. Ideally, this means that they will be responsive to broad popular demands. In practice, however, it may also mean that they will be responsive to narrow and special demands, especially if these are backed up by a willingness to contribute large amounts of money to the relevant campaign funds. Thus the following dilemma: in making politicians responsive at all, does one make them particularly responsive to special interests? If so, the polity will produce, not broadly-gauged policy that addresses the supply of public goods, but rather narrowly-targeted pork and rents that address the shoring up of political support.

We should note that we use the term “pork” in a broader-than-usual sense, one that includes two important subcategories. First, there is what might be called “fiscal pork,” referring to geographically-targetable public expenditures whose incidence and location follow a political rather than an economic logic (even though the expenditures may produce goods that have some of the characteristics of public goods). This category includes classic pork-barrel projects such as dams, levies, and so forth (cf. Ferejohn 1974; Weingast et al. 1981). Often, projects in this category are what one might call “morsels.”

Here one puts any broad national policy goal, such as cleaning the nation's water or building a better bomber to defend the nation's skies, in the role of a carcass, with representatives cast as lions. The result is a metaphorical dismemberment or morselization of the policy goal--with sewage treatment plants or military subcontracts (the morsels) widely dispersed among the lions. In this case, the goods being provided may still qualify as public goods, or at least may have some of the features of public goods, but the means of producing and distributing these goods is politically determined, and may not be the least costly means of providing these goods to the society.

The second subcategory of pork embraces "rents," as this term is used in the rent-seeking literature, referring to any of a wide array of subsidies, special tax provisions, regulatory exceptions, and so forth extracted from government (cf. Krueger 1974; Buchanan et al. 1980). The question then is what institutions structure the social bargain so that fiscal pork and rent-seeking are minimized and effective and responsible collective action can be undertaken?

This concern that pork and rents will be oversupplied and public policy undersupplied haunts many policy discussions (Ferejohn 1974; Weingast et al. 1981). Special interests seeking subsidies and rents not only pervert the meaning of democratic accountability, they also create deadweight losses and distort economic incentives (Stigler 1971, Becker 1985). Thus the question arises: What constitutional regulation of the state and what electoral environment for politicians promote policy and hinder pork? Our argument, similar to the one in the previous section, is that the privatization of public policy emerges only when there is both a constitutional separation of powers and an electoral separation of purpose.

5.1 Electoral Structure and Legislators' Demands for Pork

Politicians can use particularistic benefits to good effect in winning elections. How effective such benefits are may depend on the structure of the society. For example, societies in which gift-giving at weddings and funerals is entrenched (e.g., Japan) may foster the expectation that MPs will give such gifts. More generally, pork may be more effective in more clientelistic societies.

The effectiveness of particularistic benefits in winning elections also depends on electoral structure. In particular, electoral systems that promote intra-party competition are widely believed to make the development of a personal vote--one that depends on something other than the candidate's party affiliation--more profitable (cf. Carey and Shugart 1995; Katz 1986; McCubbins and Rosenbluth 1995; Myerson 1994). The basic logic is quite simple. If more than one member of a given party runs for office in a given constituency, and voters have the option of supporting some but not all of these candidates, then candidates of the same party will need some way of differentiating themselves from one another. They cannot do so by emphasizing the party label, because they all share this label. Thus, they need to form factions or emphasize their personal qualities. Note that the effectiveness of particularistic benefits in winning elections also depends on the nature of campaign finance. If there are lax laws (as in Japan; see Rosenbluth 1989), special interests flourish as contributors. If there is public financing, and strict regulation of expenditure on mass media (as in the U.K.), special interests do not court the individual MP.

We can summarize the marginal impact of each kind of electoral system on the nature of policy formation. First, the more candidate-centered are elections (and the

candidate selection process), the more politicians will seek focused policy benefits (e.g., pork) for their constituents. This is largely because individual legislators cannot credibly claim credit for improvements in the delivery of national public goods, but can credibly claim credit for more narrowly targeted private goods (Fiorina and Noll 1979). With their electoral fates riding primarily on their ability to deliver targeted benefits rather than public goods, public goods go undersupplied. The structure of the electoral system, in other words, creates a party system that is ill-suited to overcome the market failures that are thought to impede supply of public goods. More candidate-centered elections also mean that the number of agents that face separate electoral consequences from policy decisions, hence the number of agents that may need to be involved in any policy decisions, is larger. The consequence of this being that candidate-centered systems are less decisive, but more resolute, than party-centered systems.

In addition, having representation allocated on a geographical basis also adds a particular type of rent seeking, one in which the major interest groups are regional ones. The story of Clean Air Act of 1970 exemplifies how federalism may engender particular political compromises at the cost of effective policy. Instead of simply mandating national standards and leaving it to each industry to meet those standards in the most proficient manner, the political environment necessitated the adoption of one specific technological means for all industries to accomplish the statute's air quality goals. If straightforward national standards were adopted, the northeastern and midwestern senators (with enough votes to veto the legislation) were worried that key industries would relocate out of their states (McCubbins et al 1987; Ackerman and Hassler 1981).

As a result, Congress compromised on inefficient command-and-control intervention to achieve cleaner air.

5.2 Legislative and Executive Structure and the Supply of Pork

If politicians demand pork, they must find a supply of it. In order to extract pork from the state, one needs some leverage. One kind of leverage is the possession of a veto or the ability to delay significantly. This suggests that the more veto points there are, whether due to presidentialism, bicameralism, a malapportioned senate, or the decentralization of power within the legislature, the more pork will be attached to the passage of wealth-enhancing moves.

This point can be elaborated by considering a polity that has the opportunity to make a change in policy, possibly in response to changing conditions, that will enhance welfare by the Kaldor-Hicks criterion. By this criterion, it will be recalled, a policy change is judged welfare-enhancing if there exists a hypothetical package of lump-sum transfers such that, were the transfers costlessly made, all members of society would be better off. In the real world, how might Kaldor-Hicks improvements actually be made, given that even costless compensatory transfers are not in fact made, so that the envisioned policy changes will entail winners and losers?

One possibility is that groups within the polity are capable of making long-term trades of the form: “I’ll let you have this Kaldor-Hicks improvement now, if you let me have one in the future that benefits me (and imposes costs on you).” Most polities lack the requisite level of trust between transacting parties to be able to conclude many such agreements on trust alone. And most also lack the wherewithal to allow parties to post

long-term bonds. They thus have recourse to short-term methods of policy deal-making-- i.e., those that do not require long-term trust (or bonding).

One such method consists of packaging a number of wealth-enhancing changes into an omnibus policy change that, on balance, benefits a large percentage of citizens. This of course requires that the Kaldor-Hicks improvements occur in clusters, with offsetting winners and losers.

If one imagines a situation in which all the available wealth-enhancing moves create similar winners and losers, then the only remaining technique for enacting such policies is to make actual side payments to those losers who are capable of vetoing the policy otherwise. These side payments will not, of course, be the costlessly transferred lump sum amounts envisioned in the Kaldor-Hicks scenario. They will be real-world subsidies, warts and all. In particular, real subsidies must be negotiated and delivered, entailing transaction costs, and their presence will typically produce deadweight efficiency losses. A recent example in the U.S. would be the 1986 Tax Reform Act. Generally thought to simplify tax rates, there were nonetheless a very large number of particularistic payoffs lodged in the transition rules (Birnbaum and Murray 1987).

The idea that more veto points will generally lead to more pork is distinct from any notion that more interest groups may lead to the same thing. More interest groups *can* be bad news, if these groups simply add to the burden of special demands weighing on the economy; but more interest groups can also be good news, if this means more competition, a leveler playing field for economic interests, and less egregious favoritism toward inefficient sectors. The tension here is similar to that between federalism as

promoting inefficient regional balancing, and federalism as promoting healthy competition between the states.

5.3 Summary: Demand Meets Supply

The bottom line is as follows. A polity that both gives politicians a big electoral demand for pork and also gives them the ability in the legislature and/or the executive to control the allocation of pork, produces a lot of pork. Some societies may be inherently more prone to distributive, particularistic or clientelistic politics than others. But the electoral rules and legislative structure with which a society is endowed can help or hinder the impulse to particularism.

An outline of the argument in section 4 is presented below in Figure 2-2. When a state reduces the number of veto points and unifies previously diverse interests, it becomes more decisive. A decisive state means a centralized federal government that is less responsive to private interests. Policy becomes less distributive as the privatization and disbursement of public goods comes to an end. Ultimately, several policies and services may become nationalized. Education, for example, may become unified with a single national curriculum. Likewise, the central government may nationalize health care, the tax system (including sales and property taxes), and regulatory policy, thereby eliminating regional variation. These national policies endure as long as the enacting coalition remains in power; however, a change in the enacting coalition's constituency or an electoral shift that brings to power a new coalition, could result in a transformation of these public policies.

VI. Moving Down a Level: Legislative Branch Structure

In previous sections, we have examined how electoral and constitutional structures can affect the ability of states to address the variety of collective action problems that face their societies. Returning to the view of politics articulated at the outset of the paper, according to which they can be seen as a sequence of delegations, in this section we move down a level in this sequence, considering the “internal” organization of the policy-making process. Many of the same themes reappear at this level of delegation. In particular, separation of power at the electoral and constitutional levels tends to be mirrored in legislative, administrative, and judicial procedure (McCubbins et al. 1987). The veto points at lower levels of delegation (e.g., legislative, administrative, and judicial), for example, reflect the veto points that exist at higher levels of delegation (e.g., electoral and constitutional). Separation of purpose is mirrored in a similar way, as individuals or groups who have access at the electoral and constitutional levels maintain similar access at the legislative, administrative, and judicial levels. Fragmentation at higher levels of delegation, thus, is mirrored at lower levels of delegation.

In this section, we describe how the structure of the legislature mirrors the decision making environment of the larger political system. Divisions at the constitutional and electoral levels, for example, permeate down to the legislative level. When this happens, the resultant legislative decentralization (leading to subgovernments), like constitutional or electoral divisions of power, often produces a syndrome of ill effects ranging from stalemate to balkanization to instability. However, just as concentrating power in the hands of a responsible party is thought to avoid these

constitutional and electoral difficulties, so it is sometimes argued that strong legislative parties provide a solution to the problems of legislative decentralization.

6.1 Special Interests and Subgovernments

The problem with legislative decentralization is that policy-making gets parsed out to numerous, relatively small, self-interested actors. Instead of a coherent majority making policy for the good of the nation—or at least for the good of the majority—this kind of atomistic policy-making is thought to lead to fragmented, incoherent policy that usurps the majority will and transforms it into specialized benefits for multiple minorities. In the extreme this kind of balkanization of politics can lead to the dominance of subgovernments in the policy process.

Subgovernments come in essentially three flavors. The most common form is pure committee government (Shepsle and Weingast 1987), in which legislative committees enjoy autonomy to make policy as they wish within their jurisdictions. While committee government is most identified with legislative committees in the U.S. House, scholars also have identified its trappings in Italy (Della Sala 1993; D’Onofrio 1979), within the LDP in Japan (Thies 1994), as well as in other European parliaments (von Beyme 1985). The principal concern in all these cases is that committee members are particularly interested in their committees’ issue areas and are likely to seek policy outcomes different from what a majority of the legislature—not to mention the citizenry—would choose if given the opportunity. The noxious effects of committee government are exacerbated when committees ally themselves with the interest groups and executive agencies relevant to policy in their area, forming what the literature refers to as “iron triangles.”

In the case of the US, many have argued that policy outcomes are controlled by these “iron triangles” (Freeman 1955; Schattschneider 1960; Bauer, Pool, and Dexter 1963; Ripley and Franklin 1976; Lowi 1979). These theorists argue that lobbyists for special interests, bureaucrats, and congressional committee members work together to usurp power from the Congress and set their own policy agenda. The Chicago school models of regulation (Stigler 1971; Posner 1975; Peltzman 1976; Becker 1985) and the Public Choice school of rent seeking examined interest group competition within the “iron triangles” framework, arguing that interest groups capture control over policy from legislators and redirect benefits toward themselves. The Chicago school models conclude, therefore, that interest groups deter the provision of public goods and spawn economic inefficiencies.

While an important addition to our understanding of policy formation, the Chicago school models fail to address many issues that arise in comparative studies of interest group influence. For example, why do the amounts and types of subsidies vary across countries? Agriculture is heavily subsidized in Europe and Japan but not in the United States (Calder 1988). We also observe variation between countries in levels of the provision of public health care, credit subsidies in small-business loans, and so forth. Another question from comparative political economy that is left unanswered by the Chicago school models is: “why do some countries have protective regulations while others do not?”²⁶ When addressing these questions about interest group influence and differences in policy outcomes, it is important to determine whether policies are a by-product of capture by interest groups or the result of legislators following incentives that are created by institutions. More specifically, are legislators able to retain control over

policy choice when pursuing their reelection strategy of cultivating a personal vote, or does the goal of reelection force them to relinquish policy control to special interests? Drawing this distinction can be important for developing a theory that specifies the institutional conditions under which interest groups can prevail. Only when we have such a theory in hand can we determine whether policy differences across countries result from different levels of interest group influence.

Noll (1989) also offers a critique of the Chicago school models, arguing not only that there is a lack of robust empirical evidence to corroborate their claims but also that “the relationship between the stakes of the group and their political strengths remains a mystery, largely because in nearly all studies neither stakes nor gains in regulation are directly measured” (Noll 1989: 1277). Thus, we are left to conclude that while interest groups may be an instrumental part of legislators’ efforts to cultivate a personal vote and pursue reelection, it does not necessarily follow that the appeasement of special interests always leads to capture of the policy agenda from politicians. Before attributing responsibility for policy outcomes to interest group influence, Noll concludes, we must consider the degree to which politicians’ tools to minimize agency loss prevent capture of bureaucratic agencies by special interests. Furthermore, an understanding of politicians’ incentives to cultivate a personal vote through the provision of particularistic goods to their constituents can help explain why special interest groups might *appear* to be capturing policy control. In other words, if a legislator’s homestyle calls for the provision of particularistic goods to a certain segment of his or her constituency, then what may appear to be capture by interest groups is actually favoritism for a special

interest that is *initiated by the legislator* without direct, organized pressure from that group that benefits.

The second flavor of subgovernment is similar to the first, but with parliamentary parties taking the place of committees. This particular form of party government, the converse of party government by responsible parties (see, e.g., Katz 1980), is perhaps most commonly identified with the postwar Italian parliament (Pasquino 1988). Though not far removed in essence from partisan consociationalism (Lijphart 1977), this multiparty “party government” is seen as resulting, not in well-thought out compromises, but rather in a patchwork of policies for the benefit of numerous minorities to the detriment of the majority (cf. Dahl 1956). As with committees, parties also can ally themselves with extraparlimentary interest groups and sectors of the bureaucracy to move policy outcomes even more toward special interests and further away from the common good.

The third type of subgovernment that we identify is what might be called the dark side of corporatism. While corporatism often is seen as efficiency-enhancing, when peak labor and business association are brought into partnership with the state (e.g., Katzenstein 1985), absent such peak associations the corporatist delegation of policy-making power to private sector actors may produce a pattern similar to American-style subgovernments: policies that affect specific issue areas are made by the actors most concerned with those issue areas; the legislature serves primarily to ratify decisions taken out of the plenum and the public eye; and interest groups are explicitly incorporated into the policy process (Lowi 1979; McConnell 1966).

In all cases where subgovernments dominate policy-making, there is a profound risk that policy outcomes will thwart the majority will. This can occur in two ways. First, policy makers in each issue area agree to support each other's policy goals (Weingast 1979), resulting in an inchoate patchwork of disconnected, specialized policies. Or, second, policy makers refuse to support each other, leading to policy gridlock and a failure of the political system to produce new policy at all. Assuming that a majority desires something other than no new policy or an incomprehensible jumble of different policies, then subgovernments subvert the democratic process.

6.2 Legislative Parties and the Delegation of Power

In constitutional and electoral theory, political parties play a hero's role: they are viewed as (potentially) large enough to internalize many of the external effects that would be produced by an inchoate brew of special interest politics. Some see them playing a similar role in the narrower confines of legislative politics.

Cox and McCubbins (1993), for example, point out that if the committee government model did hold true--with separate committees, in alliance with relevant industry and executive agents, making policy without regard for the external costs thereby imposed--then there would necessarily be gains from trade to be had between the committees. The committee government model itself suggests that a highly decentralized legislature would have great difficulty in capturing these potential gains from trade, because of credibility and commitment problems among the committees (cf. Weingast and Marshall 1988). Cox and McCubbins essentially agree with this point, and go on to argue that political parties arise as a vehicle or arena within which legislative trades can be transacted more reliably than on the floor of a decentralized legislature.

Specifically, Cox and McCubbins (1993, p. 109) assume that legislators are first and foremost motivated by the reelection goal (Mayhew 1974). They draw on voting research that suggests that party affiliation, personal characteristics, and ideology are the key components of voting behavior (and thus the keys to reelection). While personal characteristics and ideology are largely private goods that legislators pursue on their own (through pork barreling and casework), party reputation is a public good for all legislators in the party (Cox and McCubbins 1993, p. 123). As is the case with most public goods, there exists an ensuing collective action problem. In order to assure positive benefits from the party label, the party must produce collective-benefits legislation where no single legislator can claim responsibility. That is, someone must ingest the costs of arranging complex logrolls that require searching or “integrative” bargaining (Bartos 1995). The collective action problem is overcome by the institutionalization of a central authority (i.e., party members delegate authority to the party leaders). Party leaders internalize the costs of providing collective benefits in exchange for internal advancement of the party in Congress (majority status) and internal advancement within the party. The leaders control various mechanisms to keep the party members in line such as committee appointment control and agenda setting.²⁷

Because parties play such an important role in organizing the legislature, a change either in the identity of the majority party in the legislature or within the majority party itself often results in policy alterations. A new majority party, for example, is likely to emphasize policies associated with their party reputation. Similarly, a change in the internal structure of the majority party often transforms the nature of the logrolls that the party undertakes. Indeed, Kiewiet and McCubbins (1991, p. 205) show that “federal

spending patterns clearly and consistently reflect the preferences of the majority parties in Congress as well as the party of the president.” Cox and McCubbins (1993, p. 269) conclude that in general “what passes will...tend to have a partisan cast.”

A similar line of reasoning applies to those models that see multiparty coalition governments as typically incapable of transacting, hence characterized by ministerial dictatorships or subgovernments (e.g., Laver and Shepsle 1990a). If such polities are indeed as characterized, then by definition substantial gains from trade could be had by anyone able to construct a stable alliance of parties, within which political deals could be made. This does not guarantee that the appropriate alliances will be forthcoming, because cooperation between parties is made especially difficult by the fact that they are typically in competition with one another for votes and seats, but it does suggest a standing prize for those able to solve the coalitional difficulties.

Finally, we have already noted that corporatist subgovernments may not be the parochial creatures that they are generally seen to be in the U.S. The hero’s role here falls to peak associations, which aggregate the competing and parochial demands of their constituent member organizations into something that better approximates an optimal policy for the country as a whole.

VII. Moving Down a Level: Executive Branch Structure

As we have discussed, certain institutions will engender an oversupply of goods by the public sector. We have argued that systems with greater fragmentation of authority, such as the constitutionally defined checks of bicameralism and federalism in the United States, increase the political need for accommodation of narrow demands as the number of veto players increases. In addition to the structural arrangements of power

within a state, the rules by which the political game are played also fundamentally guide the type of policy the system will produce. For example, electoral rules that allow a more diverse party representation—in contrast to those which give rise to broadly-based, two-party systems—will create an intra-governmental environment with a greater number of veto players and thus need for accommodation of narrow interests. The particularistic demands favored by these institutional arrangements are translated into policy outcomes through the principal-agent relationship between the enacting coalition and bureaucratic agency.

An agency's enacting coalition is composed of the relevant committee, or ministries, that drafted the legislation, the chamber majorities who approved the statute, and the president, or chief executive, who signed it into law. These players represent the set of veto gates the enabling statute must satisfy. The level of uncertainty and conflict in policy to be chosen determines the form this statute will take—whether the agency will be given broad or narrow latitude in picking its agenda, vaguely or specifically defined goals, limited or strict procedures, and so on (McCubbins 1985, McCubbins and Page 1987).

Uncertainty applies to the costs and benefits of both the economic and political consequences involved in a new program. It will suffice here to say that, in general, uncertainty and conflict leads Congress to grant bureaucrats a broader scope of legislative authority and legal tools or instruments with more confining procedures. This allows legislators to guide policy in a particular direction without necessarily knowing the ramifications of every specific alternative or even what their interests might be (how it will affect their constituency).

Thus, legislators may not know what specific policies they prefer but they *do* know which interests ought to be represented. The problems becomes how to control the implementing agency so that it does not upset the policy compromises that were required to stitch together the coalition that forged the policy. Often it is impossible for policy makers to write specific policy guidelines for the implementing agency. The tools available to political actors for controlling administrative outcomes through process, rather than substantive guidance in legislation, are the procedural details, the relationship of the staff resources of an agency to its domain of authority, the amount of subsidy available to finance participation by underrepresented interests, and resources devoted to participation by one agency in the processes of another (Noll 1987). All else equal, elaborate procedures with stiff evidentiary burdens for decisions and numerous opportunities for seeking judicial review before the final policy decision is reached will benefit constituents that have considerable resources for representation. Coupled with no budget for subsidizing other representation, or for independent staff analysis in the agency or in the other agencies that might participate in its proceedings, cumbersome procedures exemplify deck stacking in favor of well-organized, well-financed interests.

A prominent example of procedural deck stacking is offered by the regulation of consumer product hazards by the U.S. Consumer Product Safety Commission (CPSC). Although the CPSC was responsible for both identifying problems and proposing regulations, it was required to use an “offeror” process, whereby the actual rule writing was contracted out. Usually the budget available to the CPSC for obtaining a proposed regulation was substantially less than the cost of preparing it. Consequently, only groups willing to bear the cost of writing regulations became offerors, and these were the groups

most interested in consumer safety: testing organizations sponsored by manufacturers or consumer organizations. Thus, this process effectively removed agenda control from the CPSC and gave considerable power to the entities most affected by its regulations (Cornell, Noll and Weingast 1976). In 1981, Congress amended this process by requiring that trade associations be given the opportunity to develop voluntary standards in response to all identified problems, assuring that agenda control was never granted to consumer testing organizations.

The legislature can also make policy more representative to the politically relevant constituency by enhancing its role in agency procedures. The U.S. National Environmental Policy Act (NEPA) of 1969 provides an example of how this works. In the 1960s, environmental and conservation groups in the United States became substantially better organized and more relevant politically. By enacting NEPA, Congress imposed procedures that required all agencies to file environmental impact statements on proposed projects. This forced agencies to assess the environmental costs of their proposed activities. NEPA gave environmental actors a new, effective avenue of participation in agency decisions and enabled participation at a much earlier junction than previously had been possible. The requirements of the act also provided environmental groups with an increased ability to press suits against federal agencies.

In all agency decisions proof must be offered to support a proposal. The establishment of the burden of proof provides another example of how legislatures can stack the political deck in bureaucratic decision making. The burden of proof affects agency decisions most apparently when the problem that is before the agency is fraught with uncertainty. In such a circumstance, proving anything -- either that a regulation is

needed to solve a problem, or that it is unnecessary -- can be difficult, if not impossible. Hence, assigning either advocates or opponents of regulation a rigorous burden of proof essentially guarantees that they can not obtain their preferred policy outcome.

For example, the U.S. Federal Food, Drug, and Cosmetics Act, as amended, requires that before a pharmaceutical company can market a new drug, it must first prove that the drug is both safe and efficacious. By contrast, in the Toxic Substances Control Act of 1976, Congress required that the Environmental Protection Agency (EPA), before regulating a new chemical, must prove that the chemical is hazardous to human health or the environment. The reversionary outcome is that new chemicals are allowed to be marketed. The results of the differences in the burden of proof are stark: few new drugs are marketed in the United States, while the EPA has managed to regulate none of the 50,000 chemicals in commerce under these provisions in the Toxic Substance Control Act.

Ultimately, the point of deck-stacking is not to pre-select policy, but cope with uncertainty about the most desirable policy action by making certain that the winners in the political battle over the underlying legislation will also be the winners in the process of implementing the program. By enfranchising interests that are represented in the legislative majority, a legislature need not closely supervise the agency to insure that it serve its interests, but can allow an agency to operate on “autopilot” (McCubbins et al. 1987: 271, McCubbins et al. 1989). Thus, policy can evolve without the need for new legislation to reflect future changes in the preferences of the enacting coalition's constituents. Likewise, in political systems with a separately elected executive, the

executive will also undertake to mirror the political and electoral forces that he or she faces in the orders and rules imposed on the bureaucracy (Macey 1992, Moe 1990).

The courts also can play a role in the political control of the bureaucracy. Administrative procedures can affect an agency's policy agenda only if they are enforced, and their enforcement can be delegated by the legislature to the courts, in which case procedure can have an effect with minimal effort required on the part of politicians (McCubbins et al. 1987, Shapiro 1986). For supervision by the courts to serve this function, judicial remedy must be highly likely when the agency violates its rules. If so, the courts, and the constituents who bring suit, guarantee compliance with procedural constraints, which in turn guarantees that the agency choice will mirror political preferences without any need for political oversight (McCubbins and Schwartz 1984, Lupia and McCubbins 1994).

Legislatures can further limit the potential mischief of agency agenda control by carefully setting the reversionary policy in the enabling statute that established the agency. The clearest example is the creation of entitlements, whereby spending is specified by statute, and the agency has no discretion in how much, or to whom, it allocates funds. Another example is seen in the widespread use of "sunset" provisions, whereby an agency's legal authority expires unless the legislature passes a new law to renew the agency's mandate.

VIII. General Summary

The thrust of our argument in this paper, as summarized in Table 2-3 below, is that polities that combine institutional divisions of decision-making authority with political divisions of purpose will tend to be either indecisive or prone to morselizing

public policy, or both. Institutional divisions of power can come in the form of presidentialism, bicameralism, federalism, provisions for judicial review, and so on. Political divisions of purpose can stem both from the inherent diversity of opinion within a nation's society and from the incentives that the electoral system presents to combine those diverse interests into many or few political organizations. Some electoral systems encourage the formation of a few hierarchical parties whose leaders internalize the costs and benefits of public policy as it affects a wide range of the population. Other electoral systems facilitate either large numbers of parties or decentralized (factionalized or atomized) parties.

[Insert Table 2-3 about here.]

When a polity combines institutional veto points with diverse political agents, the result is something like a multilateral veto game. In such games, one outcome is indecisiveness, when the various veto groups cannot agree on any action. Another is a kind of balkanization, when the various veto groups give up on arriving at a mutually acceptable policy and attempt to take unilateral action. A third possible outcome is that the veto groups trade control over some areas of policy, leading to subgovernments (another kind of balkanization). This kind of result is typically thought to lead to each subgovernment acting as a champion of particular kinds of subsidies and is most likely when the policy decisions made in one subgovernment have relatively small external impacts (other than budgetary) on political actors controlling other subgovernments (Cox and McCubbins 1993). This, of course, may lead to budget imbalances. When policy decisions must be made that affect virtually everyone in a consequential way, a fourth outcome is that policy is passed but takes a long time to negotiate and is laden with

substantial side payments to the prospective losers.

We have expanded on this last point by considering hypothetical policies that represent Kaldor-Hicks but not Pareto improvements—that is, policies that improve net social welfare but make some actors worse off than they would be in the absence of reform. The more veto players there are, the more likely it is that the Kaldor-Hicks losers will have a voice somewhere in government that will enable them to block reforms that are pernicious to their own well-being, unless they are given what they deem appropriate compensation. Thus, distributive policy is not necessarily the product of perverse politicians, nor of perverse incentives. Sometimes, it is the currency that pays the cost of producing policy in polities that feature many and diverse veto groups. Without particularistic side payments, policy-making in these multi-actor systems would be much more difficult and, probably, much more rare.

Nonetheless, the morselization of public policy is never anyone's idea of a first-best solution. And the veto power that can be used to ensure that "appropriate" compensation is offered to Kaldor-Hicks losers can also be used to extract "inappropriate" rents. What is clearest about systems with multiple and diverse veto groups is that they are indecisive and prone to heavy doses of private-regarding policy. Of course, locating at the other extreme of the continuum—having a highly irresolute state—could have negative consequences for a polity's governability as well. An irresolute polity may be plagued by chaos and instability. While it may not be as enslaved to particularism in its policy making process, an irresolute policy will be unable to commit to its policy choices.

Thus we end where we began, with the idea that the choice of democratic

institutions entails significant tradeoffs. While these tradeoffs might not have any consequences in a perfectly harmonious nation in which every individual possesses precisely the same preferences, in the presence of diversity the threat from locating too far at either extreme becomes potentially great. That is, as a society's heterogeneity increases, a system with a greater number of effective vetoes will see increasing risk of stalemate and gridlock, as well as an increasing costliness to a legislative strategy that emphasizes private-regarding policy. Likewise, as a society becomes more heterogeneous, if the polity has a very small number of effective vetoes the risk of inequality and underrepresentation will increase. Thus, the consequences of these institutional tradeoffs increase with social diversity, so understanding these consequences is crucially important.

Table 2-1 Institutional Rules and Policy Authority

Institution	Structural Separation of Powers	Political Separation of Purpose	Possible Consequences
National Executive	Presidentialism	Divided Government	<ul style="list-style-type: none"> • Institutional Warfare (e.g., over the branches' respective powers to control expenditures) • Unilateralism (i.e., the prosecution of separate policies by different branches) • Gridlock (e.g., inability to pass budgets on time) • Budget Deficits (e.g., those in the U.S. in the 1980s, on which see McCubbins 1991a,b) • Pork
	Parliamentarism	See next section	
National Legislature	Bicameralism	Divided partisan or factional control of houses	<ul style="list-style-type: none"> • Gridlock (whenever the two houses cannot agree) • Budget Deficits (on which see Heller 1995) • Pork
	Unicameralism	See next section	
Legal Relations Between National and Sub-National Governments	Federal state Unitary state	Distinct regional preferences	The combination of federal-government policy guidelines and state-government policy-making and implementation, by splitting up policy responsibility among different actors with different preferences, makes it very difficult effectively to implement policies that do not enjoy widespread support. This means that any policy that ultimately is implemented is likely to be successful. It also means that reform policies often will be weak, as politicians focus on local constituencies in creating distributive, and often pork-barrel, policies.
National Judiciary	Independent with judicial review powers Subservient with no judicial review powers	Distinct judicial preferences	In principle, strong judiciaries may serve as just another veto gate. In practice, their role is more subtle. The existence of a relatively independent judiciary (e.g., the U.S. Supreme Court) enables reform-minded politicians to lock their preferences into legislation and guard against it being undermined in the implementation stage (McCubbins et al. 1987; 1989; McNollgast 1992).
Military	Independent military with exceptions to the Constitution	Distinct military preferences	<ul style="list-style-type: none"> • Military interventions during political or economic crises. • Coups
	Full civilian control of the military		

Table 2-2 Electoral Rules and Their Party System Effects

	<i>Candidate-centered [e.g., SNTV, SMPR]</i>	<i>Party-centered [e.g., closed list PR]</i>
<i>Strong [e.g., SMPR]</i>	Few decentralized parties [U.S.]	<i>Least Fragmented</i> Few unitary parties [U.K.]
<i>Feeble [e.g., PR]</i>	<i>Most Fragmented</i> Many decentralized parties [Brazil]	Many unitary parties [Netherlands]

Note: A unitary party is more hierarchically structured and approximates a unitary actor. A decentralized party is characterized by weak central leaders, factions, many mavericks, etc.

Table 2-3 Power, Purpose, and Decisiveness

	Unified Power	Separated Power
Unified Purpose	decisive	Decisive
	United Kingdom	Mexico, Taiwan pre-reform
Separated Purpose	decisive	Indecisive
	Japan, Czech Republic	Argentina, Chile, Poland, United States

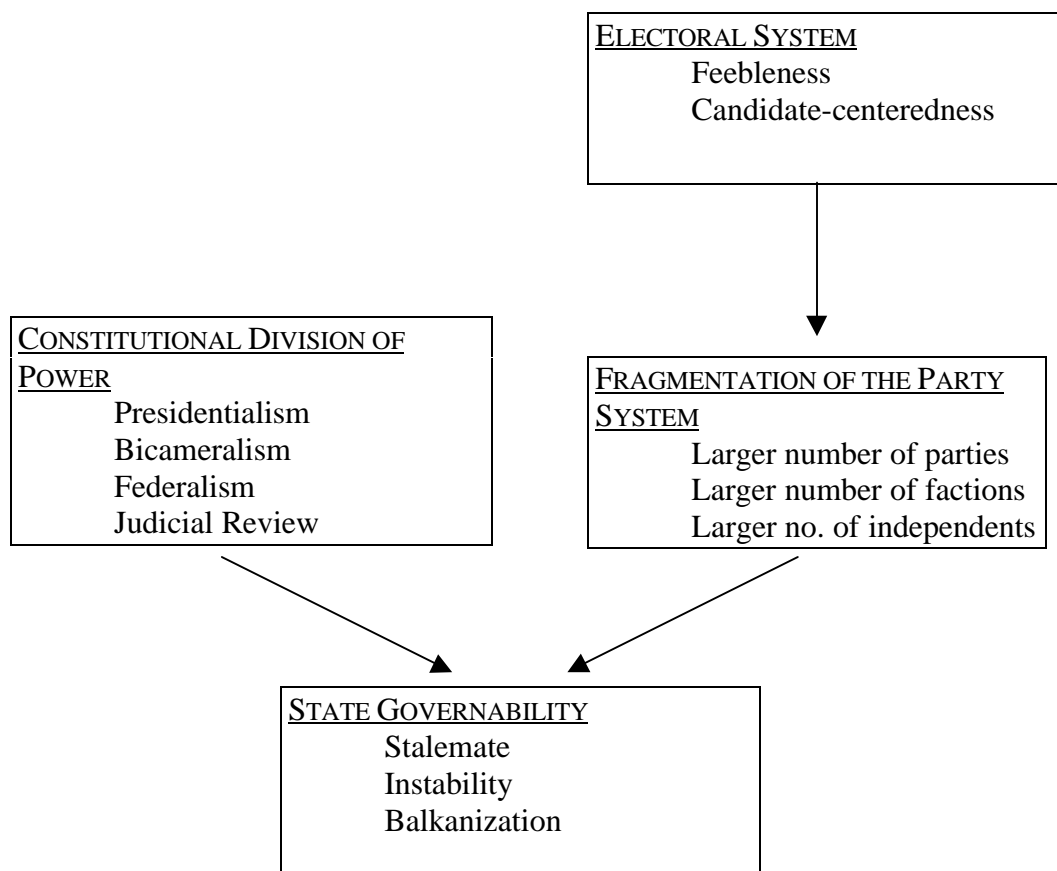
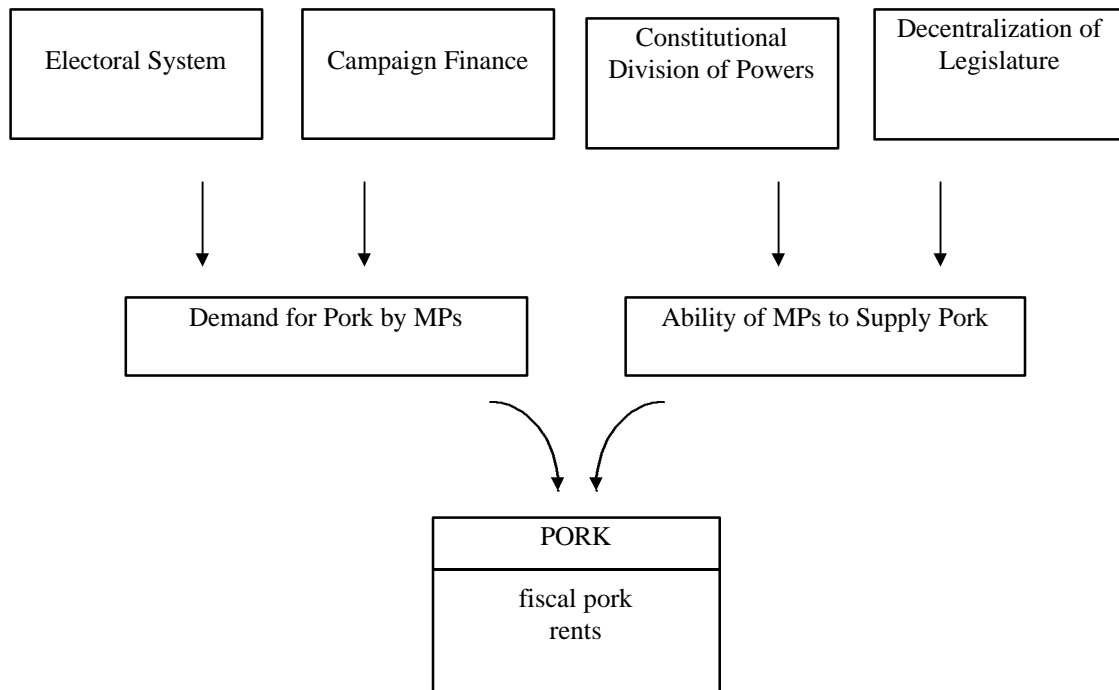
Figure 2-1 Summary of Argument in Section 3

Figure 2-2 Outline of the Argument in Section 4

Endnotes

1. See McConnell (1966); Krueger (1974); Buchanan et al. (1980); Schattschneider (1963); Peltzman (1976); Rogowski (1989); Olson (1982); North (1981, 1990).

2. Another important step in the process of delegation takes bureau chiefs as principals and their subordinates in the lower levels of the bureaucracy as agents. It is important, therefore, to recognize that even if politicians employ mechanisms to limit agency loss, the delegation can fail if top level bureaucrats cannot constrain *their* agents. This issue of internal delegation at the level of the administrative agency raises questions concerning the structure of incentives facing middle and low-level bureaucrats.

³ For an overview of such arrangements, see chapter 2 of Kiewiet and McCubbins (1991).

4. Economists have led the way in recognizing the link between political institutions and investment. Economic studies have shown, both theoretically and empirically, that institutional structure can stimulate investment by establishing a credible commitment to policy (North 1990; North and Weingast 1989; World Bank 1995; Levy and Spiller 1996; Guasch and Spiller 1996) or reducing transactions costs (Williamson 1975; North 1990).

⁵ See, e.g., North (1981, 1990), World Bank (1995), and Levy and Spiller (1996).

⁶ The discussion above implicitly adopts a dichotomous view of the separation of power: some systems separate power and some do not. As a first order approximation, this distinction is fair enough but as soon as one begins looking very hard, all sorts of shades and ambiguities appear. In what follows, we shall for the most part continue to use simple dichotomies—e.g., presidential/parliamentary or bicameral/unicameral—but return from time to time to the more ambiguous cases—e.g., premier-presidentialism (Shugart and Carey 1992) or asymmetric bicameralism (Lijphart 1984).

⁷. The point is not that the separation of power will have no consequences if there is not a *partisan* division of purpose between institutions. Instead, the point is that an observable partisan division of purpose is the best proxy we have to measure the true underlying division of purpose (which is unobservable).

⁸. As stated, our definition would also count a situation in which a coalition of parties controls all separate powers as “divided government.” Possibly, of course, a coalition in one country may be as unitary as a catch-all party in another, so that the distinction between parties and coalitions fails to order the cases properly. Again, this is a measurement error problem. Conceptually, we would like to have a precise and continuous measure of how much purpose is separated between the coalitions/parties that control the various separate powers in a system. We simply use partisan divisions as the best available proxy.

⁹ Debates over electoral structure use a slightly different language to describe the same institutional tradeoff. Methods of proportional representation (PR) make the legislature *representative* of popular wishes, by ensuring that even parties with modest vote shares gain a proportionate share of seats. These methods thus make it unlikely that a single party can gain control of the legislature; only fairly broad coalitions of parties can gain such control. In contrast, plurality rule and other so-called “strong” electoral systems tend to give large parties a sizable seat bonus, and therefore deprive small and middle-sized parties of any seats. Plurality rule thus makes single-party control more likely. To the extent that majority parties under plurality systems are less diverse than majority coalitions under PR, plurality rule leads to a greater possibility of control by a narrower range of interests. However, plurality rule also leads to more stable and decisive

governments (cf. Powell 1982; Blais and Carty 1987). Governments in more proportional electoral systems tend to be less stable and hence policy is less decisive due to the complexity and fragility of multiparty coalitions. Thus, at the electoral stage the trade-off is often framed as one between greater security (i.e., resoluteness) that only broad coalitions can act (ensured by PR) and greater stability in government (ensured by plurality rule), and hence decisiveness in policy making.

¹⁰ They also identified what they called *external costs*, which were the negative externalities imposed by not taking into account every individual's interests in a decision. A Pareto optimal decision would entail no external costs, but in the situation where no Pareto improvements are possible, because of diversity of preferences over the final outcome, external costs would be positive. Buchanan and Tullock theorized that the external costs of a decision rule increase as the effective number of veto players increase (to put it into our terms); thus, a unanimous rule would entail no external costs, while a dictatorship would entail the most.

11. The assumption that a political party will generally prefer to *get* the spending it prefers rather than to *deny* the spending that other parties prefer is fairly general when the budget constraint is soft. For, when budget constraints are soft, denying another party's spending confers a diffuse benefit on all taxpayers, and hence is not a concentrated benefit for one's constituents unless they pay all or most of the relevant taxes. In contrast, spending can typically be more highly targeted to the benefit of one's constituents. Nonetheless, there are conditions on the targetability of tax relief as opposed to spending that lead the same model to predict *lower* deficits. See Stewart 1989; 1991.

¹² The essay by Heller and McCubbins discusses this problem, also known as “hold up.”

¹³. In the case of France, the Constitutional Council reviews legislation, judging its constitutionality, after it is passed by the legislature but before it is sent to the President for promulgation. A group of sixty National Assembly members is sufficient to refer a bill to the Constitutional Council. See Stone (1992) for a discussion of the French Constitutional Council as an additional veto gate in the system.

¹⁴. Sometimes electoral districts operate independently of one another, as for example they do in the U.S. In such cases, votes cast in a given electoral district are never counted in any other district, nor do seats allocated to one district transfer to any other. Some systems, however, have complex districting schemes. In Belgium, for example, votes are initially cast in an *arrondissement*. Each party gets a number of seats from the *arrondissement* total equal to the number of “quotas” that its vote total contains. Votes that are not used to “buy” seats in the *arrondissement* are counted in a *province* (a collection of *arrondissements*) and can “buy” seats at that level; at the same time, seats that are not bought in the *arrondissements*, transfer to the provincial level.

15. In some countries, particular groups are legally endowed with what are essentially “monopoly lobbying rights,” typically along with the exclusive right to serve on various consultative and policy-setting boards and commissions. Such countries are commonly labeled “corporatist” in the literature (see Lehmbruch and Schmitter 1982). Pluralist countries, in contrast, do not regulate the process of lobbying in this fashion (see Truman 1951; Dahl 1956).

16. The argument is not that individual reelection-seeking incentives are the *only* motivation for these activities. As Cain, Ferejohn and Fiorina (1987, pp. 221-24) have

emphasized, to the extent that providing casework services produces votes, *parties* have an incentive to make sure that their members provide such services, even if there is no personal electoral incentive to do so. A particularly nice example of how this plays out is Costa Rica. There, legislators are limited to one consecutive term in the national assembly, and almost never serve non-consecutively. They thus have no personal electoral incentive to provide casework and other local services for their constituents. Yet they do provide such services--because the Costa Rican parties provide them with non-electoral incentives to do so (see Carey 1996; Taylor 1960).

17. Weingast et al. (1981) show that these incentives to cultivate a personal vote lead legislators to oversupply particularistic benefits (see, also, McCubbins and Rosenbluth 1995). Tullock's well-known concept of "fiscal illusion" reflects how electoral incentives lead to certain tax policies, as reelection-seeking legislators' goals are better served by hidden taxes. These hidden taxes are less threatening to the legislators' reelection prospects because they reduce "traceability" (Arnold 1990) from the policy to the policymaker. These tendencies to oversupply particularistic goods, coupled with a propensity for low tax rates, lead to increasing budget deficits (Alesina and Tabellini 1990; McCubbins 1991a, b; Alt and Lowry 1994).

18. One can also measure the big-party bias empirically. See, for example, Cox and Niou 1994.

19. That the threshold of exclusion is a rough estimate can be seen as follows. It might be considered an over-estimate of the minimum viable size because a party can win seats even if its seat share falls below the threshold. On the other hand, it might also be considered an under-estimate because securing enough votes to win a seat gives a party

some “revenue” but does not say at what cost. If there are fixed costs of advertising, for example, these may not be covered by winning a single seat in a multi-seat district.

20. The current state-of-the-art attempts can be found in Taagepera and Shugart (1989), Lijphart (1994), and Cox (1997).

21. Do voters in fact vote strategically? There is substantial evidence that they have, in a variety of historical and electoral contexts: in post-World War II Britain (Spafford 1972; Lemieux 1977; Cain 1978; Johnston and Pattie 1991); in nineteenth-century Britain (Cox 1984, 1987a); in West Germany in 1953 (Bawn 1993) and the 1960s (Fisher 1974); in Canada in the late '60s and early '70s (Black 1978, 1980; Blais, Renaut and Desrosiers 1974); in the 1968 U.S. Presidential election (Brody and Page 1973; Bensen and Sanders 1979); in the 1988 Presidential primaries (Abramson *et. al.*, 1992); in post-1958 Venezuela (Shugart 1985); in the Spanish lower house elections of 1979 and 1982 (Gunther 1989); in post-World War II Japan (Reed 1991, p. 351; Cox 1994); and elsewhere.

22. In Brazil, voters may cast either a vote for a candidate or a vote for a list, although the vast majority choose to vote for a candidate.

²³ See Cain, Ferejohn and Fiorina 1987, pp. 224-28; Cox 1987b; Katz and Sala 1996; Thies 1994; Mayhew 1974; McCubbins and Rosenbluth 1995.

²⁴ See Cain, Ferejohn and Fiorina 1987, pp. 12-15; Cox 1987b; Mainwaring 1991, p. 29; Rose 1983, p. 39; Cooper, Brady and Hurley 1977.

²⁵ See Fiorina 1980; Burnham 1982; Mainwaring 1991; Reed 1994; Cox and McCubbins 1993; Schick 1980.

26. Levy and Spiller (1996) address this previously unanswered question, concluding that the types of regulations that develop in a country is related to its political and social institutions. This study has important implications for understanding the degree to which institutions can signal a credible commitment to existing regulatory policy.

27. Of course, the party members maintain ultimate control over the party leaders, as the members are the principals and the leaders are their agents.