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German and Japanese opinion leaders demand a decisive move toward the liberal market model, yet their governments have been slow to act. Why can’t Germany and Japan reform? To unravel this puzzle, we must understand how the German and Japanese models of capitalism bind the potential winners from liberal reform, such as competitive manufacturing exporters, to the potential losers, such as workers and protected service industries. Competitive exporters are reluctant to embrace reforms that might undermine valued relationships with workers, financial institutions, and other business partners. Moreover they cannot forge a strong reform coalition because they must work through industry associations and political parties that represent both competitive and protected sectors. As a result, Germany and Japan proceed cautiously with reform; they package delicate compromises, often compensating the potential losers; they design reforms to preserve core institutions; and they seek novel ways to build on the strengths of these models.

THE CRISIS OF GERMAN AND JAPANESE CAPITALISM
Stalled on the Road to the Liberal Market Model?

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In the space of 10 years, Germany and Japan have gone from paragons of economic success to models of political paralysis. A decade ago, would-be reformers in other countries looked to Germany and Japan for lessons. These

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two countries had somehow discovered how to balance competition and coordination in a modern economy. They fostered cooperative relations between government and industry, financial institutions and manufacturers, and labor and management, and they delivered growth with equity (MacDougall & Kabashima, 1999; Yamamura, 1998).

Yet today the German and Japanese models of capitalism confront a profound crisis. Germans and Japanese now openly question the institutions that comprise these models: the Hausbank and main bank systems, collective bargaining and lifetime employment, interfirm networks, and close government-industry ties. In both countries, an increasingly influential number of economists, journalists, and political leaders call for a decisive move toward the liberal market model. These groups seek to eliminate protection and embrace competition: to open labor markets, liberalize finance, reform corporate governance, deregulate industry, cut welfare spending, and restructure taxation. Yet these reformers find themselves frustrated with their governments’ inability to act. They blame the political systems for blocking sorely needed reforms. The Germans have even coined a term for this dilemma: Reformstau (reform logjam). Some have suggested constitutional changes to break the impasse. Hans-Olaf Henkel (1998), a leading spokesman for German industry, proposes reducing the power of the upper house (Bundesrat) and reforming the electoral system so as to eliminate coalition governments. Ichiro Ozawa (1994), the leader of Japan’s opposition Liberal Party (Jiyuto), favors strengthening the powers of the prime minister and dramatically increasing the number of political appointees in the bureaucracy.

So why can’t Germany and Japan reform? To unravel this puzzle, we must look at how the German and Japanese systems bind the potential winners from liberal reform, such as competitive manufacturing exporters, to the potential losers, such as workers and protected service industries. Frieden and Rogowski (1996) contend that internationalization should increase conflict between the competitive and the protected sectors of the economy and strengthen the hand of the competitive over the protected sector. In Germany and Japan, however, the competitive sector cannot push through liberalization at the expense of the protected sector because the two are linked through business relationships and political ties.

I develop this argument by focusing on how economic ties between the two sectors shape industry policy preferences and how political ties between the two affect the aggregation of these preferences. First, those groups with the greatest apparent stake in liberal reforms, such as large manufacturing exporters, are reluctant to embrace reforms that might undermine the comparative institutional advantages of close long-term relations with workers,
financial institutions, other business partners, and the government (see Soskice, 1999). Second, those who do favor liberal reforms cannot forge a strong political coalition because the major industry associations and conservative political parties incorporate both the potential winners and the potential losers from reform. Thus the associations and the parties must work out internal compromises between constituent groups before proposing reforms. The other political parties are even less likely to support liberal reforms. As a result, Germany and Japan wind up with a distinctive pattern of economic reform: They proceed with reforms slowly and cautiously; they package delicate compromises, including considerable compensation for those who might be disadvantaged by the reforms; they design reforms to preserve the core institutions of their respective models as much as possible; and they seek novel ways to build on the strengths of these models. I will review in a later section how this pattern plays out in four specific issue areas: labor market reform, financial reform, corporate governance reform, and regulatory reform.

In the United States and Britain, in contrast, industry has supported liberal reforms more strongly; industry groups have been more likely to lobby on their own or to form ad hoc coalitions rather than to work through national peak associations; and the conservative parties have embraced the liberal market model much more wholeheartedly. As a result, the United States and Britain have moved much more boldly with liberal reforms than have Germany and Japan (King & Wood, 1999; D. Vogel, 1989; S. K. Vogel, 1996).

THE GERMAN AND JAPANESE MODELS

For present purposes, we can define the German and Japanese models as constellations of institutions (including political institutions, intermediate associations, financial systems, labor relations systems, interfirm networks, and so forth) linked together into distinct national systems of economic governance. Coordinated market economies such as Germany and Japan differ from liberal market economies such as the United States and the United Kingdom in that they foster more long-term cooperative relationships between firms and labor, firms and banks, and different firms. And the state and intermediary associations play a critical role in establishing and maintaining the framework for this private-sector coordination. Although there is considerable variation across sectors and across firms within individual countries, the coordinated market economies remain sufficiently distinct from liberal market economies to make this a useful distinction. These differ-
ent governance structures affect everything from corporate strategy to industrial structure, economic performance, and public policy (Aoki, 1988; Soskice, 1999).

The German and Japanese variants of the coordinated market economy model also differ from each other in important ways. German firms, banks, and unions are more inclined to coordinate their activities at the sectoral level, whereas their Japanese counterparts coordinate through intersectoral industrial groups or supply networks (Soskice, 1999). The German government facilitates private-sector coordination, whereas the Japanese government organizes and guides the private sector more directly. The German government has gone further in codifying its economic model in law, whereas the Japanese model rests more on informal networks and standard practices. And German labor is more powerful than Japanese labor in both politics and corporate management.

THE FORCES FOR CHANGE

Before we look at how Germany and Japan are responding to their respective predicaments, let us briefly review the common forces that are driving reform in the two systems. First, the increase in trade and capital flows between nations is breaking down the relative insulation of the German and Japanese markets. Foreign companies that do not behave according to local norms are increasingly infiltrating domestic markets, and domestic companies are exposed to new patterns of behavior as they move abroad. Manufacturers and financial institutions are less dependent on exclusive relationships with domestic business partners because they can pursue other opportunities in international markets. The increasing mobility of capital and corporate activity not only undermines the ability of national authorities to control corporate behavior but also encourages governments to reduce regulation so as to prevent capital or corporate flight. Second, the U.S. government, other national governments, and international organizations such as the World Trade Organization and the European Union (EU) are promoting further market liberalization and regulatory harmonization. Third, the growing importance of the service sector challenges countries such as Germany and Japan that have their primary strength in manufacturing, and the information technology revolution does not play to traditional German or Japanese strengths. Compounded with internationalization, this increases the costs of dualistic economic systems in which a highly competitive export sector, primarily in manufacturing, is combined with an uncompetitive sheltered sector, primarily in services. Fourth, slow economic growth and government budget con-
The inherent inefficiencies in the two systems make them less tolerable. They generate political pressure to cut government spending and provide incentives for political leaders to promote deregulation and other reforms that promise to improve economic performance without increasing spending.

Germany and Japan also face pressures unique to their particular circumstances. Germany must cope with integration into the EU, which mandates market liberalization and regulatory harmonization and imposes stiff requirements for fiscal policy. Germany confronts reunification with the former East Germany, which not only strains the country’s financial resources but also entails the incorporation of a region with a completely different institutional legacy. Japan faces greater political change, with the end of Liberal Democratic Party (LDP) hegemony, the introduction of a new electoral system, and the ongoing realignment of political parties. And Japan suffers far more serious economic troubles, with a prolonged recession and a full-fledged banking crisis.

THE ECONOMIC TIES THAT BIND:
INDUSTRY PREFERENCES

Frieden and Rogowski (1996) offer a model for deducing societal preferences that suggests the competitive sector should favor liberalization, the protected sector should oppose it, and internationalization should strengthen the competitive sector vis-à-vis the protected sector. According to standard economic analysis, economic liberalization should reduce prices and expand choices for consumers, lower costs for producers, and boost economic growth. It not only improves efficiency in the short run but also can bring more dynamic long-term benefits by stimulating business activity and innovation. Protection has both a distributive cost, in that it punishes consumers in favor of producers, and a social welfare cost, in that it distorts the allocation of resources within the economy. The higher is the level of protection and regulation, the greater are the potential benefits from reform. Frieden and Rogowski suggest that internationalization should intensify domestic groups’ preference for liberalization. As international trade and capital flows expand, the gap between domestic prices of protected goods and world market prices widens, meaning that the welfare costs of protection (and hence the potential benefits from liberalization) increase. Frieden and Rogowski focus primarily on the liberalization of international trade and financial transactions, but they note that the argument applies to domestic structural barriers as well. This model of sectoral cleavages fails to capture the way in which the micro institutions of capitalism shape industry preferences. We cannot sim-
ply read policy preferences off a given sector’s place within the economy (competitive versus protected) without looking at how the sector is embedded in market institutions. The Frieden-Rogowski model works for liberal market economies such as the United States and Britain, but only because firms in these countries rely less on long-term relationships with workers, banks, and other businesses for their competitive advantage and more on flexible labor markets and sophisticated capital markets. As King and Wood (1999) demonstrate, the micro logic of industry preferences in the liberal market economies is strikingly different from that of the coordinated market economies. Because firms in the liberal market economies compete more on the basis of cost than quality, they strongly advocate market liberalization and other policies designed to lower costs.

In Germany and Japan, however, the competitive sector does not necessarily bear the expected preferences for liberalization. Competitive firms remain bound to the protected sector through long-term business relationships and/or cross-shareholding arrangements with unions, banks, suppliers, distributors, and other firms and through political ties to industry associations, political parties, and government agencies. These firms derive comparative institutional advantages from the micro institutions of German and Japanese capitalism, such as labor relations and financial systems, so they must weigh the expected efficiency gains from liberal reforms against the potential costs of undermining these institutions. As a result, they are much less favorable toward these reforms than they would be in the absence of these institutions and more favorable toward reforms designed to preserve or reinforce these institutions. I build here on the fundamental insight of the historical institutionalist school that suggests institutions shape preferences (Hall, 1999; Pierson, 2000; Steinmo, Thelen, & Longstreth, 1992). Furthermore in Germany and Japan, societal preferences are not aggregated in a way in which the competitive and the protected sectors confront each other directly in the political arena. The proponents of reform cannot forge a strong and unified coalition for liberal reform because the major industry associations and political parties incorporate both the competitive and the protected sectors of the economy.

All else being equal, for example, one would expect employers to favor reforms to make labor markets operate more efficiently. This should give them access to better workers at a lower cost. But in the specific context of Germany and Japan, all else is not equal. The Federation of Engineering Industries Employers’ Associations (Gesammtmetall) conducted a series of meetings with member firms in 1996 to survey their views on the collective bargaining system and found that more than 80% of the firms wanted to maintain the system but also to reform it. “They do not want to have to negoti-
ate wages or determine social policy at the company level,” explains Volker von Wangenheim, deputy director of Gesamtmetall, “because this destroys the cooperative atmosphere at the workplace” (personal communication, June 29, 1998). German firms tend to adjust to shocks through internal labor market flexibility (reorganizing and retraining), whereas U.S. and British firms adjust through external labor market flexibility (hiring and firing) (Soskice, 1999; Thelen, 1999). So German and Japanese companies rely more on cooperative relations with labor and less on labor flexibility. “We compete on quality and safety, not on price,” explains Dr. Peter-R. Puf of Daimler-Benz. “So we have negotiated greater flexibility with our works council, but we do not want to move to a hire and fire policy” (personal communication, July 2, 1996). Given this context, German and Japanese firms are less favorable toward labor market liberalization than their Anglo-American counterparts and are more likely to advocate adjustment policies designed to enhance labor-management collaboration.

Likewise one would expect firms to advocate financial and corporate governance reforms designed to make equity markets operate more efficiently because this would reduce financing costs and stimulate financial innovation. But German and Japanese firms derive distinct advantages from their existing financial systems. Many German and Japanese managers value their freedom to hide profits and losses or to manipulate reporting to smooth out earnings over time, so they are reluctant to embrace financial reforms that would bring stricter requirements for information disclosure. Others worry that further financial liberalization might undermine the advantages of close working relations with their banks. They count on these banks for preferential access to credit at special rates, a wide range of free services such as providing information and brokering business alliances, and assistance in the event of a financial crisis. German firms are not as concerned about corporate bond market reforms as they might be, for example, because they often borrow from their banks on better terms than they could get by issuing bonds.

1. Of course, one cannot prove that stated preferences reflect actual preferences. Broadly speaking, political scientists deal with this problem in one of two ways: They deduce preferences from theory (see Frieden, 1999), or they use empirical research to specify preferences as well as possible (see S. K. Vogel, 1999b). Applying this debate to our discussion of industry preferences, we cannot be sure whether German and Japanese industry actually does not favor bold liberal reform, or whether it favors liberal reform but does not articulate this preference for political reasons. In either case, however, the findings support the present argument about how the institutions of German and Japanese capitalism modify pressures for liberal reform. As outlined later, my field research suggests that both mechanisms are operating.

2. According to an Institute of the German Economy study, 96% of German firms support policies to sustain the dual (firm-school) vocational training system; see http://www.iw-koeln.de/IDW/I-Archiv/idw50-99/150-99-6.html.
man and Japanese managers also like being insulated from shareholder demands for short-term profits, so they are wary of reforms that would leave them more exposed. “I am very concerned about all this talk about maximizing returns on equity,” laments Toyota’s Takahiko Ijichi. “Japan’s strength is its long-term perspective. If you take this away, then you end up just laying off workers” (personal communication, June 9, 1998). Within this context, German and Japanese firms are more reluctant than their Anglo-American counterparts to advocate financial liberalization and are more likely to support measures to protect or enhance the German and Japanese models, such as government credit subsidies or new financial mechanisms to support small businesses.

Even when German and Japanese firms do favor liberal reforms, they are sometimes reluctant to take a stand publicly for fear that this might undermine close long-term relationships with workers, financial institutions, other firms, and the government. For example, Gerhard Knoke of the Westdeutsche Landesbank reports that bankers are often reluctant to advocate financial reforms that might hurt other banks. “We have certain underground gentleman’s agreements,” he notes. “You shut up about what concerns my bank, and I will do the same for you” (personal communication, June 23, 1999). Similarly, a Nippon Life executive recalls how his firm refrained from advocating the liberalization of brokerage commissions despite the fact that it was losing huge sums of money by overpaying for these commissions. Company executives feared that if they pressed for the liberalization of brokerage commissions, others would then feel freer to demand the liberalization of insurance commissions (personal communication, August 1991). In contrast, U.S. corporations have aggressively pursued deregulation through challenges in the marketplace, in the courts, and through political channels (Eisner, 1993; King & Wood, 1999; S. K. Vogel, 1996).

Elder (1998) argues that Japanese exporters tolerate trade protection for intermediate goods industries, although this substantially increases their costs, because they themselves benefit from government protection and/or promotion, and they are linked to intermediate goods producers directly through business relationships and indirectly through common links to banks, trading companies, and the Ministry of International Trade and Industry (MITI). Likewise, Japanese business groups have restrained their demands for agricultural liberalization for fear of antagonizing farmers or hurting the ruling LDP politically. German food processors and some chemical producers support agricultural subsidies out of loyalty to farmers, their valued suppliers (for the food processors), and customers (for the chemical producers).
Some corporations mute their demands for reform to preserve good working relations with government ministries. In Japan, an October 1996 Nihon Keizai Shimbun poll found that 82% of firms favored regulatory reforms, but only 6% wanted changes in the pattern of government-business cooperation (Tilton, 1997). When the government was working on legislation to liberalize the market for value-added network services, many of the would-be value-added network service providers favored the Ministry of Posts and Telecommunications’ (MPT) more modest approach to reform over MITI’s more liberal proposal. They understood that they would soon come under MPT’s jurisdiction, and they did not want to alienate their future regulator (S. K. Vogel, 1996).

I have focused here on industry preferences, but one would expect consumers to advocate liberal reforms as well. After all, many economists would argue that consumers are the ultimate beneficiaries of liberalization. Yet here again, German and Japanese consumers and consumer groups do not always bear the expected preferences for liberalization. They sympathize with producer groups such as farmers or retailers, or they value social stability, product safety, and/or environmental protection over economic efficiency. In fact, Japanese consumer groups have strongly opposed agricultural liberalization, one policy change that could substantially improve their economic welfare. Japanese consumer groups have also resisted deregulation, including financial liberalization and retail deregulation (S. K. Vogel, 1999b). German consumers and consumer groups are not quite as reluctant to embrace liberal reform, but they have hardly rallied to the cause. Most have supported agricultural liberalization, but some have opposed retail deregulation, and none have shown much interest in deregulation in other sectors. “The question of deregulation is simply above the heads of the majority of the voting public,” decrees Social Democratic Party (SPD) leader Hans-Ulrich Klose (personal communication, July 1, 1998). In the United States and Britain, unlike Germany and Japan, consumer groups have strongly advocated deregulation.

**THE POLITICAL TIES THAT BIND**

**INDUSTRY ASSOCIATIONS**

Some German and Japanese firms do in fact advocate liberal reform. I simply suggest here that the institutional context of German and Japanese capitalism modifies these preferences: Fewer firms advocate reform than one would otherwise expect, and those firms that do advocate it are more ambivalent than one would otherwise expect. In addition, these preferences are
aggregated in a manner that further moderates demands for liberal reform. The major industry associations and political parties represent both the advocates and opponents of reform, so they do not push for the all-out victory of one side but rather arrange delicate compromises between the two. If anything, they tend to favor the potential losers from liberal reform. In contrast, U.S. industry does not work through such stable channels: Corporations are more likely to lobby on their own, to form new lobby groups and disband others, and to put together temporary coalitions to promote specific reforms (D. Vogel, 1989).

On the surface, the most powerful industry federations in Germany and Japan, the Bundesverband der Deutschen Industrie (BDI), or the Federation of German Industries, and the Federation of Economic Organizations (Keidanren), appear to represent competitive rather than protected sectors and to advocate bold liberal reform. BDI President Henkel has demanded sweeping reforms including the dismantling of the collective bargaining system, and Keidanren chair Shoichiro Toyoda crusaded for deregulation. Yet both organizations have been stymied by internal dissension, preventing them from putting forth a unified voice.

At the BDI, Henkel has been so outspoken that his own organization sometimes distances itself from his positions. The BDI has difficulty advocating reforms against the opposition of its own members, even a small minority. For example, the vast majority of BDI members favor the abolition of coal subsidies, yet they cannot propose this without the coal industry’s consent. “We would welcome a reduction in coal subsidies,” explains Axel Schulz of the Verband der Chemischen Industrie, or the Chemical Industry Association, “but we do not say so because this is not our concern. So the government cannot make cuts because the coal industry and the unions oppose them and no one will take a stand publicly in favor of them. The BDI will not take a position. This is the real problem in Germany” (personal communication, June 21, 1999). Keidanren has supported fiscal reform, agricultural liberalization, and deregulation, yet it also has been forced to compromise with dissenters in its own ranks. For example, the oil industry association, which not coincidentally is located in Keidanren’s headquarters building, forced Keidanren to drop oil from its widely publicized deregulation proposal of November 1994. More recently, financial institutions within Keidanren have pushed it to qualify its support for financial reforms.

Both Germany and Japan have separate employers’ federations focusing on labor issues. The Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA), or the German Confederation of German Employers’ Associations, has a broad mandate to work on social and labor policy, leaving economic policy to the BDI. The BDA and its member associations have an enormous
stake in maintaining the collective bargaining system because one of their primary functions is to oversee this system. Beyond this, however, the BDA’s position for maintaining the collective bargaining system reflects the industry preferences previously discussed. Even when the organization does advocate reform, it tries to do so in a manner that will not alienate its labor partners. “We actually support some recent government policy changes,” confesses the BDA’s Renate Hornung-Draus, “but we do not say so too loudly or we will get in trouble with the unions” (personal communication, July 8, 1996). In recent years, the BDA has especially focused on lobbying for increased government support for vocational training programs. Whereas the BDI and the BDA enjoy roughly equal status in Germany, the Japan Federation of Employers’ Associations (Nikkeiren) is clearly the junior partner to Keidanren in Japan, focusing more narrowly on labor issues. Keidanren and Nikkeiren are now planning to merge to streamline their activities and lower operating costs. Like the BDA, Nikkeiren has gone to great lengths to frame reform proposals in a manner acceptable to the unions. Its “Bluebird Plan” for reform incorporates substantial concessions to labor, including labor adjustment policies and a strengthening of the social safety net. Meanwhile, Nikkeiren Chairman and Toyota Motors President Hiroshi Okuda has launched a personal campaign to defend the Japanese model from its detractors, especially extolling the virtue of employers’ long-term commitment to their workers. “Companies that make layoffs will lose the trust of their workers,” he warns. “They will not be able to hold on to the best workers, and they will end up losing their competitiveness” (“Nihon-teki keiei,” 1999).

One might expect sectoral associations representing competitive exporters to be freer to articulate positions favoring reform. Yet even at this level, most major industry associations in Germany and Japan incorporate groups both favoring and opposing reform. For example, the German Automobile Association (Verband der Automobilindustrie) represents not only the large automakers but also almost 500 small- and medium-sized body and parts suppliers. These two groups within the association fundamentally disagree over a wide range of issues. For example, the automakers want to preserve Germany’s exclusive dealership system, but most parts suppliers would like to open the dealership system to more nonstandard replacement parts. The association generally defers to the BDI when its own members are divided. When it feels compelled to take a stand because the issue is of particular importance to the auto industry, it takes great pains to reach a position acceptable to all members (personal communication, Götz Birken-Betsch, Verband der Automobilindustrie, July 9, 1998). Likewise, the Electronic Industry Association of Japan has difficulty resolving differences among its members. “Our industry is not that heavily regulated, but we do have some regulated
areas, such as radio, medical instruments, and cable television and broadcasting," reports association official Kazuaki Ogasawara. "So we leave deregulation up to Keidanren" (personal communication, February 27, 1997).

In both countries, the Chambers of Commerce are the primary advocates of small business. The chambers find themselves in the opposite predicament as the big business federations: Their primary loyalty is to small firms, yet their membership includes large companies as well. Even so, the groups almost always aggregate preferences in favor of the smaller businesses, “On retail deregulation, we represent both sides: big stores and small ones,” explains Japanese Chamber President Shoichi Tanimura. “But we do not have any major disagreements because the strong ones accept that they must consider the situation of the weak” (personal communication, June 10, 1998). The chambers are extremely powerful in both countries, especially at the local level. In Germany, this magnifies the voice of small business due to the federal system and the effective veto power of the Bundesrat. In Japan, it amplifies this voice due to the close ties between small business and ruling LDP Diet members. Thus to the extent that the BDI and Keidanren advocate liberal reform, albeit moderate reform, this force is often balanced by a politically privileged small business lobby. Whereas the Japanese small business lobby is almost uniformly opposed to liberal reforms, Germany has a substantial segment of small export firms that are more supportive of reforms. The Verband Deutscher Maschinen- und Anlagenbau, or the German Machinery and Plant Manufacturers’ Association, which represents almost 3,000 small manufacturers, supports the liberalization of labor markets and other liberal reforms as well as greater public investment in education and technical training.

Frieden and Rogowski (1996) suggest that there also may be a divergence of interest between unions in the competitive sector, which favor liberalization, and those in the protected sector, which oppose it. That is, there might be greater harmony of interests between employers and unions within the competitive sector (a cross-class alliance) than between unions in the two sectors. In Germany and Japan, however, there are cross-class alliances to defend the labor relations or welfare systems but not to advocate liberalization. Unions in the competitive sector are reluctant to advocate liberalization at the expense of their brethren in the protected sector. In Germany, the chemical sector unions are more willing to accept flexibility in labor contracts than are their counterparts in the metal sector. And yet both union federations, IG Chemie and IG Metall, are internally divided on labor market reforms. “We do not have a split between exposed-sector and protected-sector unions,” explains Dr. Gilbert Marchlewitz of the German Labor Federation
(Deutscher Gewerkschaftsbund), “because even the sectoral unions are so big that they incorporate both” (personal communication, June 23, 1999). In Japan, the automobile, electronics, and steel unions recognize that they stand to benefit from more competition in service industries, yet they are reluctant to take a strong stand politically because they are bound to unions in protected sectors. “We favor deregulation,” explains Rikio Kozu of the Nippon Steel union, “but we still have to get along with our friends in the electricity industry unions” (personal communication, February 26, 1997). Rengo and other large union federations incorporate both the competitive and protected sectors, so they must resolve this conflict in-house. “When there is a conflict,” stresses Tsuyoshi Takagi, president of the textile union federation (Zensen), “we try to determine which group has a more reasonable argument and which group has a more difficult situation. And we give preference to the group with the tougher situation” (personal communication, June 16, 1998).

**POLITICAL PARTIES**

The German and Japanese conservative parties are not “liberal” parties in the classical sense of the word (Kitschelt, 1999). They are considerably less likely than their British and American counterparts to embrace liberal economic policies. In part, this reflects the parties’ recognition of the industry preferences and industry association positions previously outlined. In addition, the protected sectors of the German and Japanese economies are larger than those in Britain and the United States, and these sectors are especially powerful politically. So both the Christian Democratic Union (CDU) (as well as its Bavarian partner, the Christian Social Union) and the LDP represent advocates as well as opponents of liberal reform.

The CDU differs from the LDP in that it enjoys substantial support from labor unions, especially moderate Christian unions. Those CDU politicians who benefit from this support are naturally wary of taking positions that would alienate these constituents. The party has a substantial bloc of parliamentarians committed to defending and supporting generous welfare provisions. Like the LDP, the CDU relies heavily on support from protected sectors of industry, especially small business and service industries, so it is extremely cautious in promoting competition and cutting back protection. As a result, the CDU cannot take a stand in favor of liberal reform without making compromises with dissenters from within the party.

Germany does have one party more solidly devoted to a liberal policy line, the Free Democratic Party (FDP). The FDP has increasingly stressed liberal economic policies in recent years but has been unable to widen its popularity beyond 5% to 10% of the vote. The FDP was a long-standing minority partner
in the governing coalition prior to 1998, but it was largely unable to impose its will on its larger partner, the CDU. And even the FDP has been forced to moderate its passion for liberal reform due to resistance among its own supporters. The FDP garners considerable support from small business owners and professionals who themselves benefit from government regulation, so it has refrained from endorsing unbridled deregulation. When the Monopoly Commission came out with a report favoring sweeping deregulation of the professions in July 1998, FDP leaders wasted no time in denouncing the proposal. “As liberals, we know the commission is right,” admits party advisor Thomas Ilka, “but as a party we could not support the proposal” (personal communication, July 19, 1998).

With its election victory in 1998, the SPD took power for the first time in 16 years in a coalition with the Greens. The SPD initially enjoyed a majority in both houses of parliament but lost this majority with its defeat in regional elections in Hesse in February 1999. The SPD is even less likely than the CDU to embrace liberal reform. In a sense, the SPD faces the opposite dilemma from the CDU: The CDU cannot advocate unbridled liberal reform, but the SPD cannot oppose it outright either. The SPD must recognize the new realities of the German economy and push through some reforms yet try not to alienate its core supporters. The SPD won the election by targeting the middle, portraying itself as more moderate than it had been in the past. The new government has promoted its Alliance for Jobs through classical tripartite talks between government, employers, and labor unions. It moved quickly to roll back some of the labor and welfare reforms enacted under the previous government. In July 2000, however, it passed a surprisingly business-friendly tax reform package. Then in 2001, it passed two relatively cautious pension reform bills, slightly reducing the level of government support for pensions and providing incentives for individuals to contribute to private retirement accounts.

The SPD’s junior partner in government, the Greens, has undergone an even more dramatic transformation en route to taking power. In anticipation of a possible “red-Green” coalition, the party tried to reinvent itself as a responsible party fit to govern. In the process, Green parliamentarians moved considerably further toward the center than the party organization. The parliamentarians favor some liberalization in finance, energy, and telecommunications. But when they recommended extending shopping hours for small retail stores (less than five employees), they ran up against virulent opposition from their own party and dropped the proposal. “We are divided between the ‘New Greens’ who favor smaller government and empowerment of the individual,” reports party advisor Petra Kachel, “and those who still assume
that direct state action can effectively address complex problems” (personal communication, July 3, 1998).

No Japanese political party has ever stood unequivocally in favor of economic liberalization, and no party is likely to do so in the foreseeable future. During its period of hegemony (1955-1993), the LDP enjoyed an unusually broad support coalition spanning both the competitive and protected sectors, so it tried to avoid policies that would blatantly sacrifice one part of the coalition in favor of another. The party satisfied big business with its high-growth economic strategy of low interest rates, tight fiscal policy, the transfer of personal savings into industrial investment, and active industrial policy. But it matched this with compensation for specific constituent groups, notably, farmers and small businesses, through protection, subsidies, and public works spending (Bullock, 2000; Calder, 1988; Woodall, 1996). Prime Minister Ryutaro Hashimoto promoted a broad-based reform agenda from 1996 through 1998, but his successors Keizo Obuchi and Yoshiro Mori considerably slowed the pace. In fact, Kabun Muto, who himself oversaw the deregulation program as director-general of the Management and Coordination Agency, forged a group of 150 LDP Diet members to resist further deregulation. Japan differs substantially from Germany in that the bureaucracy plays a major role in developing, enforcing, and renegotiating political bargains between interest groups. Like the LDP, the bureaucracy itself both advocates and opposes liberal reform and tends to design elaborate political compromises between reform proponents and detractors rather than to press for the outright victory of either side.

During the period of LDP hegemony, the opposition parties distinguished themselves from the LDP by pressing for more protection and more regulation, not less. But since 1993, new opposition parties have emerged that could represent those groups, such as consumers and exporters, whose interests in liberalization were not represented by the LDP and the traditional opposition parties. Furthermore, the Diet changed the Lower House electoral system in 1994 to one purported to give parties greater incentive to differentiate themselves along policy lines. It replaced the old multimember district (or single nontransferable vote) system with a combination of 300 single-member districts and 200 proportional representation seats in 11 regional blocs. Some of the new parties have indeed tried to portray themselves as proponents of small government, in contrast to the LDP and the Social Democratic Party of Japan (SDPJ), yet none of them has been able to break free from reliance on support from protected sectors of society.

The largest opposition party, the Democratic Party (Minshuto), represents an awkward union of politicians of diverse origins, ranging from economic liberals to former socialists. Democratic Party chief Yûkio Hatoyama
stresses that the party distinguishes itself from the LDP not by pushing for bolder liberalization but by advocating government intervention to ease economic adjustment. “The LDP advocates deregulation as well, so people ask us how we are different,” explains Hatoyama, “and we say that we stress employment adjustment and creating new jobs” (personal communication, June 17, 1998; Hatoyama, 1996). The party’s other top leader, Naoto Kan, stresses that Japan needs to spend more on social services, not less. “We want to help people feel better about the future, especially old people,” he explains. “This means pensions, health care, and nursing care. We must invest more in these areas, and we believe this will be good for the economy” (personal communication, August 8, 2000). Even Tetsundo Iwakuni, a former Merrill Lynch executive who represents the wealthy residential area of Setagaya in Tokyo, sees little merit in touting the liberal cause: “The people do not want to move from a world of low risk and low return to a world of high risk and high return. So I do not get any votes by walking around championing deregulation” (personal communication, June 12, 1998).

Over the long term, the logic of the new electoral system may push parties to differentiate themselves more clearly along policy lines. Even if this happens, however, no party is likely to push for drastic liberalization, for even those groups with the greatest stake in liberalization give it only qualified support. Moreover, those groups that oppose liberalization—farmers, workers, protected industries—offer more reliable financial and electoral support than those who advocate it. They are more likely to vote than other groups and less likely to change party affiliation (Bullock, 2000).

RECENT REFORMS

Let us briefly review reforms in four areas to discern patterns of reform and to see how the Germans and Japanese are changing and/or not changing. By moving decisively in these areas, Germany and Japan would move substantially toward the liberal market model, imposing major adjustments on private-sector behavior (see Gourevitch, 1996).

LABOR MARKET REFORM

Commentators in both countries now blame rigid labor markets for high labor costs, decreasing competitiveness, and high (Germany) and rising (Japan) unemployment. Politically, one would expect firms, employer federations, and the conservative parties to favor labor deregulation, whereas workers, union federations, and the parties of the left would be expected to
Yet in both countries, firms have been ambivalent, the employer federations have opposed many reforms outright, and the conservative parties have tread very carefully. In contrast, the United States and Britain have moved much more aggressively to deregulate labor markets (Golden, Wallerstein & Lange, 1999; King & Wood, 1999).

In Germany, economists, journalists, and other opinion leaders have called for the abolition of the collective bargaining system altogether. Many firms, especially in the East, have simply stopped abiding by the collective agreements. But most firms still feel that they benefit from the present system and prefer to preserve it while introducing modest reforms to allow more flexibility. Meanwhile, the employers’ associations and the trade unions strongly support the system. As a result, the conservative government did not attempt to reform the collective bargaining system but did take several smaller steps (Thelen, 1999). In 1996, it reduced legally mandated sick pay allowances from 100% to 80% of salary. This created a major uproar, with unions arguing that companies would be violating their labor contracts if they implemented the change. Interestingly, Chancellor Helmut Kohl himself encouraged companies with such provisions in their contracts to maintain this commitment (Munchau, 1996). As it turns out, the vast majority of German companies simply continued to pay the 100% rate. Then in the fall of 1997, the government enacted two additional measures: one easing requirements for terminating workers and the other allowing more flexibility with short-term (1- to 2-month) contracts. The new SPD-Green government has since reversed all three of these measures. Furthermore in February 2001, the cabinet approved measures designed to strengthen codetermination in small companies. The proposed legislation would reduce the size of companies required to pay a full-time director for the works council from companies with 300 employees to those with only 200, and it would simplify the rules for very small companies to form works councils in the first place (Buck, 2001).

The Schröder government has not only resisted labor deregulation but has adopted a distinctively German approach to coping with high unemployment. Through its Alliance for Jobs program, it is promoting a structured tripartite dialogue among employers, unions, and the government. It uses this forum to cultivate a consensus on policies to combat unemployment and to encourage employers and unions to negotiate their own solutions, such as bargains whereby workers agree to wage moderation and greater flexibility in working hours in exchange for job security. The government is promoting programs for early retirement, lower overtime, more flexible work hours, and tougher regulation of illegal foreign workers, with a special emphasis on government support for job training. It is also attempting to reorient the German economy toward growth sectors in services and high technology by sponsor-
ing research and development and creating new mechanisms to finance small businesses (Adelberger, 2000).

In Japan, employers have not proposed any wholesale change in the employment system but only piecemeal reforms coupled with more active adjustment policies and new protections for workers. The government has moved forward with modest deregulation measures in the context of a government-wide deregulation movement that began in the 1980s and has accelerated since 1993. In 1997, the government amended the Equal Employment Opportunity Act to remove some special protections for female workers, such as those governing overtime and nighttime work. Then in September 1998, it revised the Labor Standards Law to give employers more flexibility with employment contracts and overtime pay, but it coupled this with increased regulation of termination notices, working conditions, and overtime hours. And in July 1999, it revised the Worker Dispatching Law and the Employment Security Law to give employers greater freedom in dispatching workers, to allow private companies to provide employment placement services, and to increase legal protection for job seekers. Nevertheless, the Japanese legal system still gives employers considerable flexibility to manage human resources within the firm by transferring employees to subsidiaries or increasing work time, for example, while sharply constraining their ability to hire and fire workers (Yamakawa, 1999).

Meanwhile, the government has designed its response to the economic crisis to preserve employment in distinctively Japanese ways. It has sculpted fiscal stimulus packages to boost public works spending in outlying regions to support construction companies and other small businesses. It has refrained from a U.S.-style “shock therapy” approach to the banking crisis, which would entail quickly liquidating the bad loans, for fear that this would wipe out viable small businesses. The government has moved slowly with deregulation (see as follows) precisely because it recognizes that anticompetitive practices sustain employment in protected sectors, such as retail and distribution. In July 1999, the Diet authorized a special fund aimed at creating 700,000 jobs by strengthening job training programs, providing subsidies to employers for retaining workers, and hiring jobless workers directly for government projects. In August 1999, the government passed the Industrial Revitalization Bill with strong support from the business community in both the competitive and protected sectors. The bill resurrects industrial policy with a new purpose: to facilitate corporate restructuring and shift the economy into new growth sectors. It combines an array of tax breaks, subsidies, and low-interest loans to encourage investment in high technology and other growth areas. As the Japanese press was quick to note, the bill also reinforces the authority of the Ministry of International Trade and Industry,
which will approve the distribution of the new resources on a case-by-case basis (“Gedatsu dekinai,” 1999). And in October 1999, the government introduced another bill to provide tax breaks, subsidies, and credit to small businesses and to provide a safety net for small enterprises in emergency situations.

The logic of the present argument also applies to welfare reform. That is, one would expect most firms to favor reforms to reduce mandatory spending on employee benefits and otherwise lower the overall tax burden. But German and Japanese firms are less supportive of welfare cuts than one might otherwise expect, because many feel that welfare provisions help to sustain the labor-management cooperation on the shop floor that generates high productivity growth. Manow (1999) argues that in the German context, welfare provisions enhance rather than decrease the competitiveness of firms, forming an important element of comparative institutional advantage. Germany and Japan have moved cautiously with welfare reform despite enormous political debate over the issue.

FINANCIAL REFORM

Germany and Japan have lagged behind many other advanced industrial countries in financial liberalization, especially with respect to securities markets. In the United States and Britain in particular, financial institutions, institutional investors, and the regulators themselves forged a powerful political force driving major reforms in the 1970s and 1980s. In Germany by the 1990s, the big banks supported measures to promote new financial instruments and to centralize equity-trading activity in Frankfurt, whereas the smaller financial institutions and the Länder opposed. Meanwhile, the Bundesbank opposed the introduction of money market instruments for fear that they might affect monetary policy. When the Bundesbank finally did permit them, it did so in a manner such that the banks could dominate these new products (Vitols, 1997). Nevertheless the German government pushed through substantial reforms in the 1990s in response to increasing competition from other financial centers, especially London, and EU directives on financial services. In 1994, the government passed an omnibus financial reform bill to reorganize the stock exchange; created a new regulatory agency, the Supervisory Office for Securities; established criminal penalties for insider trading; and established the legal foundation for the introduction of money market funds (Story, 1996; S. K. Vogel, 1996). In addition, the July 2000 tax reform eliminated the capital gains tax for companies selling equity stakes in other companies, thereby making it much less costly for firms to divest their cross-holdings (“Taxes,” 2000). At the same time, however, the
government has sought ways to ensure that the financial system continues to serve the needs of German industry. For example, the government redeployed credit institutes, which were originally created to provide long-term finance for industry, to provide venture capital to start-up firms (Adelberger, 2000).

Japan’s Ministry of Finance (MOF) was very slow to liberalize deposit interest rates and to lower the regulatory barriers between different types of financial institutions. Although some of the biggest banks favored more rapid reform, the ministry moved very deliberately, packaging elaborate political compromises between the various groups within the financial sector, such as city banks, securities houses, insurance companies, and regional banks (S. K. Vogel, 1996). With the financial crisis and the widespread loss of faith in the ministry in the 1990s, however, the political pressure for reform increased substantially. In response, Prime Minister Hashimoto proposed a Big Bang reform in 1996 in which the government would liberalize foreign exchange transactions; open up the mutual fund, pension, and trust markets; deregulate brokerage commissions; allow banks, securities houses, and insurance companies to enter each other’s lines of business through holding companies; and shift the MOF’s supervisory duties to a new Financial Supervision Agency (FSA). Even so, the Big Bang does not represent a complete break with past patterns of financial regulation, as the ministry is phasing in these measures gradually, paying special attention to their impact on domestic financial institutions. Moreover the government retains considerable discretion in orchestrating the process of regulatory change and in continuing to supervise and monitor the financial system (Murphy, 1997). It is playing a critical role in allocating public funds to banks in crisis, in monitoring troubled banks’ behavior, and in orchestrating the reorganization of the financial sector (Ostrom, 1999). It has partially resurrected its traditional role in allocating credit, using bank rescue funds to extend credit to small businesses and redeploying the Japan Development Bank (now the Development Bank of Japan) to support troubled firms (“Japanese finance,” 1999).

Germany and Japan both have large public-sector components of their financial systems, representing about half of total savings, that strongly resist reform. In Germany, the public-sector regional banks and cooperatives are highly popular and politically powerful at both the regional and the national level. Despite pleas for reform from the private banks, conservative politicians have resisted reforms that would threaten this sector. The government and the Ländesbanken are now fighting challenges at the EU level, contending that the government unfairly subsidizes these banks (“German banks,” 2000). Meanwhile, government officials and public bank executives are working together in a classically German fashion to increase economies of scale through business tie-ups and mergers within the network of public
banks. Likewise, the Japanese government has refused to reform the popular postal savings system. Ministry of Posts and Telecommunications officials have allied with powerful LDP politicians to fight back calls for reform.

**CORPORATE GOVERNANCE REFORM**

Germany and Japan have also initiated accounting, disclosure, antitrust, and other regulatory reforms purported to promote wider share ownership and facilitate shareholder governance. One would expect large corporations to favor reforms that would make it easier to attract foreign investors, thereby raising share prices and reducing financing costs. German and Japanese firms, however, fear that such reforms could also prevent them from stockpiling hidden reserves to smooth out earnings over time and otherwise manipulating their financial reports (see Doremus, Keller, Pauly, & Reich, 1998). Reforms could make it harder for managers to pursue a long-term management strategy and to defend against hostile takeovers, undermine the advantages of long-term preferential relationships with banks, and usher in American-style legalistic regulation.

The German and Japanese governments have compromised on the terms of those reforms that have gone through, and they have yet to address many other regulations that impede a more decisive move toward shareholder capitalism. German politicians debated major reform legislation for more than a year before reaching a compromise in November 1997. German business leaders were themselves reluctant to push reform too far for fear that they might undermine the advantages of the existing system (Ziegler, 2000). The Control and Transparency in Business (KonTraG) Bill that emerged from this debate abolishes enhanced and maximum voting rights (special voting rights not accorded to all shareholders); restricts banks from exercising proxy voting rights in firms in which they have a greater than 5% ownership share; requires banks to report transfers of their own personnel to firms in which they have a greater than 5% stake; allows firms to buy back up to 10% of their own shares; reduces restrictions on shareholders’ ability to receive compensation for management misconduct; and increases the duties of supervisory boards, especially with respect to coordination with auditors. But the government carefully designed the legislation so it would not undermine the positive role of banks in providing capital to growing industrial firms and supporting firms in times of crisis (Hampton, 1997). The government considered but ultimately rejected proposals to impose legal restrictions on bank share ownership. In addition, Labor Minister Norbert Blüm blocked proposals to reduce the size of supervisory boards due to powerful resistance from unions that feared this might undercut their influence.
The Japanese government has not confronted corporate governance reform in a comprehensive way but has made some piecemeal adjustments. The MOF’s Business Accounting Deliberation Council has recommended higher standards for consolidated reporting, market-to-market accounting for assets, recognition of off-balance sheet liabilities, and line-of-business profit and loss disclosure. But many firms have resisted these proposals because of fears that they will make it more difficult to manipulate return on equity figures, smooth out earnings over time, ignore contingent or unfunded liabilities, or camouflage the cross-subsidization of business operations (Shinn, 1999). The government has moved forward with substantial accounting changes, introducing consolidated reporting in 1999 and market (rather than book) valuation of equity portfolios in 2000. Meanwhile both Keidanren and the LDP have come up with elaborate proposals designed to allow corporations to restructure their cross-shareholdings without causing the stock market to fall or allowing outside shareholders to buy up these shares. As Shinn (1999) points out, however, these measures violate the very purpose of market-oriented corporate governance reform: to facilitate stock market adjustments and corporate contests for control. Keidanren and the LDP are also proposing to limit executive liability in shareholder suits and to reinforce Japan’s system of insider board directors (“Japan’s corporate-governance,” 2000). MITI and the Ministry of Justice are expected to announce proposals for broader corporate governance reforms in 2002.

Japan’s decision to remove the ban on holding companies also has intriguing implications for corporate governance. Large corporations, industry associations, and MITI advocated lifting the ban to make it easier for companies to restructure and cut costs. Corporate executives report that this could facilitate restructuring by allowing companies to combine within a holding company structure rather than merging outright. The holding company option also could help companies to extend their practice of using interfirm links and diversification to manage labor costs without layoffs. In practice, however, it also could enable them to devalue lifetime employment by developing multiple tiers of wages and benefits for permanent employees. Thus the unions pressed for substantial concessions prior to the reform legislation’s passage. The government has postponed the introduction of a consolidated tax system, a prerequisite before firms can take advantage of the new holding company law, until 2003.

REGULATORY REFORM

On regulatory reform, one would expect competitive exporters to advocate deregulation while protected firms would resist. Yet German and Japa-
nese exporters have been less supportive of deregulation than one might otherwise expect, for many of them are bound to the protected sector through supply networks, distribution chains, and cross-shareholdings. As a result, Germany and Japan have been much more cautious than the United States or Britain on regulatory reform (S. K. Vogel, 1996). The German government produced a highly publicized report in the late 1980s proposing bold deregulation in a wide range of sectors, yet it has yet to implement many of the proposals. The Japanese government has designated deregulation as a national priority since 1993, yet a 1999 report judges that Japan has made little progress in promoting competition (Organization for Economic Cooperation and Development, 1999). Both countries have accelerated reform in recent years, however, especially in more dynamic sectors such as telecommunications.

The German government initiated telecommunications reform relatively late, only really beginning the process in the late 1980s in response to developments at the EU level. Few firms favored reforms to Germany’s classic Post, Telegraph and Telephone administration prior to that time. Once the reform debate began, however, several computer makers voiced support for liberalization because it would lower telecommunications costs and expand the equipment market. Most telecommunications equipment manufacturers were wary, however, for they benefited from privileged relations with the Bundespost. In 1984, the government set up a 12-member reform commission, including representatives from the unions, the CDU, the SPD, the Länder governments, and the media. The government eventually passed reform legislation in 1990, but not without making considerable concessions to the unions. The government agreed to include union representatives on Deutsche Telekom’s board and to leave organizational links between Telekom and the postal service. The government decided to privatize Telekom in 1993, beginning with the sale of a 25% share in 1996. It then liberalized telephone markets effective January 1998, bringing in an array of new entrants and prompting a rapid drop in telephone charges.

In Japan, the computer firms and non-Nippon Telegraph and Telephone (NTT) family equipment manufacturers, whom one might expect to favor reform, were virtually absent from the political debate. The government passed legislation to liberalize the market and privatize NTT in 1985. Under the new regime, the ministry closely controlled price and service changes by both NTT and its new competitors to allow the competitors to grow without allowing NTT to become too complacent. In 1997, Prime Minister Hashimoto, the MPT, and NTT worked out a delicate compromise whereby NTT would be allowed into the international market but would be broken up into one long-distance carrier and two regional carriers, although the three units would remain joined within a single holding company structure.
March 1998, it announced a 3-year program of deregulation measures, including the elimination of some price regulations and the recalibration of interconnection charges (charges levied by NTT for other providers using its network). Keidanren has supported greater competition in telecommunications in principle but has refrained from commenting directly on interconnection charges or the reorganization of NTT. Several participants in this debate contend that Keidanren has held back because its chairman sits on the NTT board and NTT threatened to take its whole group of companies out of Keidanren if the association backed bolder reforms (personal communication, August 2000). In July 2000, the United States and Japan concluded an agreement to substantially reduce interconnection charges. The MPT then began discussions with politicians and the interested parties regarding yet another reorganization of NTT to enhance competition.

Germany and Japan have been more cautious with liberalization in more politically sensitive sectors such as retail, for they are extremely sensitive to the fate of small businesses. Although large retailers would increase their market share and manufacturers would benefit from more efficient distribution, few companies have pressed for deregulation. In Germany, the conservative government proceeded with a modest extension of shopping hours in 1996 despite considerable resistance from within its own coalition as well as rabid opposition from retailers and some labor and consumer groups. Then in 2000, the government proposed extending hours further, from 8 to 10 p.m. on weekdays and from 4 to 8 p.m. on Saturdays (“Six days,” 2000). Economists have also recommended that the government abolish the complex rebate system whereby retailers cannot offer discounts greater than 3% of a purchase price. “A few politicians proposed reforms of the rebate system in 1994, but the CDU rejected the idea,” concedes party economic advisor Dr. Stephen Hesselmann. “Now no one has the courage to take this up—not even the FDP” (personal communication, July 19, 1998).

In Japan, MITI announced an initial proposal for reforming the Large-Scale Retail Store Law in 1989, and the U.S. government pressed for reform through the Strategic Impediments Initiative talks (Schoppa, 1997). The government phased in reforms gradually from 1990 through 1994, streamlining the approval process for large stores but still allowing the small merchants themselves to exercise considerable control. In practice, local regulatory boards have required most large store operators to reduce planned floor space before accepting their proposals. Moreover, the government compensated small retailers with a new budget line of ¥10 billion a year to support the modernization of local shopping districts (Schoppa, 1997). Then in May 1998, the government replaced the Large-Scale Retail Store Law with a new regulatory regime (effective in 2000) that devolves authority to local governments.
The new system is designed to promote competition while still allowing local authorities to promote social values such as preserving the environment. Critics argue, however, that it leaves considerable discretion in the hands of both MITI and the local governments and that in practice it may actually increase regulation and constrain competition (Sato, 1998).

PATTERNS OF REFORM

Although we cannot reach definitive conclusions on the basis of this brief review, we can begin to discern some patterns. Looking cross-nationally, Germany and Japan have not converged on the liberal market model. Their labor and financial markets remain much more heavily regulated than those of the United States or Britain. They maintain greater cooperation between labor and management, closer ties between banks and industry, denser networks of relationships between firms, and closer coordination between government and industry. Despite popular cries of the end of German and Japanese capitalism, these two economies have preserved many of their distinctive features.

But have Germany and Japan moved closer to the liberal market model? If one views the liberal market model in static terms, then Germany and Japan have indeed moved in the direction of more competition in labor, capital, and product markets. If one compares them to the moving targets of the United States and Britain, however, they may not have narrowed the gap at all. Whereas Germany and Japan have been cautiously moving ahead with liberal reforms, the United States and Britain have been surging forward much more boldly (King & Wood, 1999; Schmidt, 2000). One statistical index suggests that economic freedom did not rise at all in Germany from 1990 to 1995, actually fell in Japan, and rose substantially in the United States and Britain (Gwartney & Lawson, 1997). From 1995 to 2001, these same trends continued in all four countries (O’Driscoll, Holmes, & Kirkpatrick, 2000).

Shifting to the comparison between Germany and Japan, we find substantial differences as well as similarities. Germany has moved further toward the liberal market model than Japan, especially in finance and corporate governance reform, for several reasons. First, in Germany the European Monetary Union forces companies to fight off new competitors in their home markets, to move into foreign markets, and to exploit and/or defend themselves against cross-border mergers and acquisitions within Europe. The EU serves as a

3. For quantitative evidence demonstrating the nonconvergence of Germany and Japan with the United States and Britain, see Golden, Wallerstein, and Lange (1999) on labor and Jackson (1999) on corporate governance and finance.
political force driving liberalization and regulatory harmonization that is sometimes able to supersede the normal logic of German domestic politics. Second, German politics is more infiltrated by international interests and views than is Japanese politics. Foreign firms have a stronger presence in Germany than in Japan and play a greater role in advocating reform. Third, the German bureaucracy has not shaped the substance of reform nearly as much as its Japanese counterpart. Japanese officials have been especially zealous in designing reforms so as not to undermine their own regulatory discretion, a critical source of leverage over industry. Finally, Japanese firms are linked to banks, other firms, and government agencies in even denser networks of interrelationships than are their German counterparts, making them even more reluctant to support reforms that might jeopardize these relationships.

At the same time, Japan’s failure to act more boldly than Germany is somewhat surprising because Japan faces a more severe economic and financial crisis and greater political change. The economic and financial crisis has fueled calls for drastic reform, and the emergence of a more viable and more articulate opposition has made the ruling LDP more responsive to public outcry. Yet the government has moved most boldly in areas of symbolic importance, such as reorganizing the central bureaucracy, and much more cautiously in critical areas such as opening markets and making the regulatory process more transparent.

Furthermore the logic of the argument presented here suggests that we should find considerable differences between Germany and Japan, reflecting differences in the structure of the two economies. As noted at the outset, they are both “coordinated,” although in different ways. For example, the Japanese government plays a much more active role than the German government in cultivating and monitoring private-sector coordination and relies on regulatory powers as leverage in doing so. Therefore Japanese ministries have been much more zealous than their German counterparts in trying to protect regulatory discretion.

Likewise, both Germany and Japan have highly structured labor markets, but they are organized differently. In Germany, the principles of collective bargaining and codetermination are codified in law and organized through a massive array of national, regional, and plant-level associations. This means that these organizations have an institutional stake in maintaining the system and that fundamental change requires legislation. In contrast, the Japanese system is less codified in law; this means that Japanese firms have greater legal freedom to adjust their practices, but the Japanese government is less able to impose change through legislation.
In addition, labor unions are more powerful in Germany, but small retailers and farmers are more powerful in Japan. Japan has its own version of a social safety net, but this combines government welfare spending with private sector (firm and family) welfare and a wide array of regulations that dampen competition and preserve employment. Germany has a more developed welfare system than Japan, with a daunting coalition of interests devoted to its perpetuation. This means that Japanese interest groups are less effective in fighting labor reforms or welfare cutbacks than their German counterparts but more effective in preserving anticompetitive regulations that sustain social stability. Other things being equal, this makes it more difficult to proceed with welfare cuts or labor reform in Germany than Japan but easier to promote regulatory reform.

With respect to variation across issue areas, Germany and Japan have moved furthest in those areas in which market pressures are the greatest and the reform debate has not become highly politicized. They have made considerable progress with financial and corporate governance reforms, whereas they are more tightly constrained with labor and welfare reform. National authorities often must accept financial reforms because financial institutions can engage in regulatory arbitrage: shifting assets instantly from one regulatory jurisdiction to another. If the authorities fail to respond, they risk holding back domestic financial institutions and setting off the flight of capital and business activity from domestic markets. Likewise on regulatory reform, Germany and Japan have moved more rapidly in dynamic international sectors such as telecommunications, than in more political domestic sectors such as retail.

In addition, Germany and Japan have made substantial progress in technical areas that have not become as politicized. The German government was able to move forward with a major corporate governance reform bill with relatively little political resistance. The government was careful to design the bill so that it would not directly attack core features of the German system, but nonetheless the reform will have major repercussions for corporate practices in the years to come. The bill encountered little resistance because the potential opponents (small business, labor unions) could not fully grasp the implications and separate out the desirable from the undesirable aspects of the proposed legislation. Thus they did not mobilize in the same way they would for labor or welfare reform. Likewise, the Japanese government enacted an accounting change for corporate share valuations that has enormous implications for corporate governance, without labor unions or even the MOF fully grasping the long-term ramifications.

If reform is in fact moving more quickly in finance and corporate governance than in labor or welfare, this then raises the question of how tightly the
different parts of the German and Japanese systems are linked (see Aoki, 1988, on institutional complementarities). For example, will more competitive financial markets and tougher information disclosure requirements force German and Japanese firms to shift from stakeholder to shareholder governance? If so, does this mean that these firms will have to abandon or loosen their long-term commitments to their workers? The evidence to date suggests that the German and Japanese systems are not so tightly linked that shocks in one area, such as finance, automatically dictate changes in another, such as labor. Financial reforms generate pressures for change in labor relations but do not determine how firms and governments respond. To date, Germany and Japan have adjusted to changing circumstances without dismantling the core institutions of their respective economic models. The logic of the present argument suggests, however, that as firms themselves adapt to new circumstances, this may in turn reshape their policy preferences, making them just a bit more amenable to liberal reforms in the future.

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According to Fernando Fajnzylber, the political economies of Japan and the United States present distinct characteristics in areas such as their consumption patterns, income distribution, trade orientation, and economic dynamism. These characteristics provide a model for emulation by their East Asian and Latin American neighbors, respectively. Although some of the attributions and associations alleged seem obvious, others are more questionable and controversial. This article employs cluster methodology to undertake an empirical analysis with the aim of classifying and delineating the relevant political economies. Contrary to expectation, there is scant support for the proposition that Japan and the United States present two divergent prototypes of a development model. Similarly, the Latin American countries have not followed the U.S. model of development as hypothesized, although they do differ sharply from the East Asian political economies.

JAPAN AND THE UNITED STATES
AS DEVELOPMENT MODELS
Classifying Asia Pacific and Latin American Political Economies

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This article develops a numerical taxonomy of the larger political economies of the Asia Pacific region and the Americas. It seeks to explicate and substantiate a qualitative historical-institutional interpretation of the different paths of development taken by these countries. Fajnzylber (1990) argues that Japan and the United States have served as exemplars for their respective neighbors, which have followed two rather distinct models of development. Whether due to voluntary emulation, political hegemony, or simply environmental conditions, East Asia and Latin America seem to have evolved divergent development institutions and ideologies. These institutions and ideologies have promoted and legitimated particular class and sec-

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toral interests, pacts of domination, elite and mass ethos, and government policies and have in turn been reinforced by the latter. This reciprocal causation has had a profound effect in framing political discourse and policy agenda, so that certain development choices come to be perceived as difficult, illegitimate, and even unthinkable. The choices made at an earlier time, whether deliberately or unconsciously, would in turn affect the choices available at a subsequent time. Such “embedded persistence” motivates and justifies efforts to develop a meaningful typology of the relevant political economies.

The rest of this article follows in five parts. The next section outlines Fajnzylber’s (1990) arguments and places them in the context of several traditions of comparative scholarship. This is followed by a discussion of the cluster methodology. This section is in turn succeeded by a brief summary of the variables and data sources used in this inquiry. The results of the cluster analyses are then presented and interpreted. The conclusion discusses the theoretical and policy implications of this study.

THE JAPANESE AND U.S. MODELS OF DEVELOPMENT

The political economy of a country is more than its formal institutions of governance, its regime’s declared ideology, or even its elite’s beliefs about feasible and rewarding approaches to pursue personal or national wealth and power. It encompasses mass ethos and conduct in regard to matters such as the relative emphasis to be placed on competition versus collaboration, work versus leisure, savings versus consumption, personal liberty versus societal harmony. Attitudinal and behavioral variables pertaining to these matters offer informative indicators of the interests, ideologies, and institutions that define a political economy.

One tradition in the study of political economy has the state at the center of analysis (e.g., Gerschenkron, 1966). National economic performance is explained in terms of state-society relations (e.g., Evans, 1995; Johnson, 1982). East Asia’s strong states are seen to have contributed to faster economic growth. A different tradition calls attention to the operation of market forces. Studies sharing this emphasis point to the supposed superiority of East Asia’s pursuit of export-oriented industrialization compared to Latin America’s adoption of import-substitution industrialization. “Getting prices right” or, at least, greater effort mobilization and more efficient use of available resources are identified as the key determinants of the discrepant performance of these two regions (Balassa, 1981; Morawetz, 1981). Still a third tra-
dition follows from Weber’s (1904-1905/1958) classic work and treats modern-day Confucianism as the functional equivalent of the protestant ethic (Kahn, 1984). Entrepreneurial skill, work discipline, social trust, thrift, and human capital formation are supposed to be the major values that influence national economic performance.

Regardless of the differences in their relative emphasis on the state, market, or culture, few analysts would argue with the claim that current national norms, practices, and institutions are the products of physical environment and historical legacy. Due to their differences in resource endowment and formative experiences, the political economies of Japan and the United States have assumed rather distinct forms. A large population relative to agricultural land, a comparative disadvantage in exportable natural resources, a pervasive concern with social integration, and a general acceptance of the state as a custodian of collective well-being (and, conversely, a marked skepticism about the efficacy of market mechanisms to achieve this goal) characterize the background of Japan’s political economy. The United States tends to assume the opposite end of these spectra. Such contrasts have given rise to two divergent, even competing models of development. The consequent differences in development orientation present alternative policy prescriptions about, for example, the proper role of the state, the feasibility of import-substitution strategies of development, and the necessity of concerted investment in human capital. They form salient features of others’ perceptions of Japan and the United States and, indeed, are central tenets of their respective self-image.

What then are the hallmarks of the Japanese and U.S. “models of development?” Fajnzylber (1990) offers a synthetic account that articulates the tenets of all three scholarly traditions mentioned earlier. He argues that the Japanese are more oriented toward engaging in long-term strategic planning, with a particular emphasis on manufactured exports to foreign markets. The continental size of the United States and its abundance of natural resources have inclined Americans to adopt a more short-term, tactical orientation in their conduct of economic affairs and to assume a certain intersectoral neutrality in this conduct. Americans traditionally tend to see their country as a passive giant, in matters of both international economics and security, that eschews tedious planning but that somehow always rises heroically to the occasion when challenged. They profess a deep skepticism about the efficacy and legitimacy of government intervention in the marketplace and a pervasive faith in the wisdom of organizing the social order largely through the operation of market forces. The Lockean and Confucian traditions foster divergent popular predispositions toward the government as a potential threat to personal liberties in the United States and as a guardian of public interests in
Japan. As a latecomer in the game of industrialization and with a traditional culture that reveres public service, Japan accepts the legitimacy and indeed imperative of an active developmental state. A poverty in natural resources focuses attention on the development of public education as a national priority in Japan, whereas this investment in human resources does not acquire the same urgency in the United States. Moreover, the educational systems of the two countries tend to encourage different career training, with a relative emphasis on engineering in Japan and on the financial and legal professions in the United States. Their respective policy institutions show pronounced tendencies favoring savings in one case (Japan) and consumption in the other (the United States). These differences reflect, among other things, peoples’ relative confidence about their personal and collective futures and popular ethos about the necessity and feasibility of concerted effort mobilization to prepare for possible adversities and the appropriate time horizon for personal and social planning. Finally, Fajnzylber argues that the corporate cultures of the two countries can be traced to a historical concentration on large and secure domestic markets by U.S. firms and a persistent obsession with foreign sales on the part of their Japanese counterparts. Their corporate cultures focus, respectively, on the return to investment and the control of market shares, a difference that derives in part from the reliance on the equity market in the United States and on the leading banks in Japan as a chief source of manufacturing capital.

The attributions just made are part and parcel of well-known “stylized facts” about the Japanese and U.S. political economies. As caricatures, they accentuate some aspects of reality while giving short shrift to others. Moreover, they tend to dwell excessively on historical differences while overlooking signs of more recent convergence. Still the legacies of the past continue to have contemporary relevance to the extent that development trajectories show “path dependency.” In addition, the experiences and practices of leading industrial powers gain wider acceptance in their neighboring countries. Fajnzylber (1990) argues that the development patterns of the East Asian and Latin American countries reflect their emulation of the Japanese and U.S. orientations, respectively. He identifies four structural features of the latter political economies for comparison between these two alleged propagators of development models and among their respective “followers” (South Korea on one hand and Argentina, Brazil, and Mexico on the other).

The first dimension concerns consumption. Despite their affluence, the Japanese display patterns of relatively austere consumption, such as in housing, food, energy, and personal transportation. Fajnzylber (1990) gave particular emphasis to the ownership of private vehicles as an indicator of the “American way of life” and as a form of “exuberant” consumption, reflecting
distorted priorities in developing countries. He noted that “in 1981, the relative density of automobiles in Japan was roughly one third that of the United States, while Japan’s per capita income was more than three fourths of the comparable American figure” (p. 326). These differences are magnified in the follower nations so that “while South Korea has become a leading exporter of automobile products, its domestic automobile density equals only one tenth to one fifteenth that of the Latin American NICs [newly industrializing countries] that have overall economies of similar size” (Fajnzylber, 1990, p. 338). More recent data published since Fajnzylber’s analysis suggest that these discrepancies have diminished for the U.S.-Japan pair and that they have even been reversed among the NICs. The number of passenger cars per 1,000 people was 489 in the United States in 1997 but only 373 in Japan (World Bank, 1999). It was 165 in South Korea compared with 127 in Argentina, 75 in Brazil, and 93 in Mexico. These figures, however, have not been adjusted for differences in per capita income.

National savings presents the other side of the consumption story. In 1984, Americans saved 5.2% of their disposable income compared with the Japanese rate of 22.5%. Savings as a percentage of gross domestic product was 15% and 32%, respectively, in 1986 (Fajnzylber, 1990). These figures have declined for both the United States and Japan since Fajnzylber’s writing, although the gap between these two countries has persisted. Lack of personal credit facilities and inadequate pension plans continue to encourage higher savings in Japan. In 1997, the savings rate was 5.3% for the United States and 14.6% for Japan (World Bank, 1999). Likewise, large discrepancies continue to characterize the four NICs studied by Fajnzylber: South Korea (24.3%), Argentina (7.9%), Brazil (11.1%), and Mexico (16.0%).

Patterns of consumption and production are sustained by the growth and distribution of income. Fajnzylber’s (1990) second analytic dimension addresses income equity or the lack thereof. Among the developed economies, the United States has one of the least egalitarian income distributions. Income distribution in the Latin American countries, especially Brazil, has been even more severely skewed in favor of a small group of wealthy people. The urban elite consumes much of the economic product at the expense of the rural poor. In contrast, the gap between the rich and poor (and between the urban and rural sectors) tends to be much smaller in Japan and its two former colonies, South Korea and Taiwan. The ratio between the income shares of the wealthiest 20% of population and the poorest 20% of population was 4.3 for Japan, 7.9 for South Korea, and 5.4 for Taiwan in the most recent year with available data (Council for Economic Planning and Development, 1999; World Bank, 1999, 2000). The comparable figures for the ratio between the top and bottom quintile of income groups were 9.4 for the United States and
11.4, 25.7, and 16.2 for the three Latin American countries on which Fajnzylber focused (namely, Argentina, Brazil, and Mexico). In addition to indirectly reflecting national structures of production and consumption, these income statistics point to a country’s relative valuation of social integration versus unfettered market forces.

Ironically, while professing the ideal of equal opportunities, the U.S. model of development has accepted the reality of substantial inequality. Conversely, while retaining many traditional authoritarian and hierarchical features, Japan and the other East Asian political economies have instituted in some respects a more equal allocation of national resources. Equal access to those conditions that contribute to a high physical quality of life—namely, low infant mortality, long life expectancy, and high adult literacy—is as relevant as an egalitarian distribution of income (Morris, 1979). The median earnings of a Black U.S. man are only 74% of his White counterpart, and his average life expectancy is about 85% of the latter. Statistics on educational attainment, such as high school graduation rates and scholastic test scores, show racial discrepancies of comparable magnitude. Even without adjusting for the expectation that the wealthier countries should be able to provide better education for their citizens, the United States is a chronic underperformer on this dimension of public investment in human capital. U.S. students tend to do poorly in standard tests on mathematics and science, whereas students from the less affluent East Asian and East European (e.g., the Czech Republic, Bulgaria, Slovenia) countries tend to perform much better—and consistently so.

Is a political economy geared primarily toward selling in a domestic market or exporting internationally? Fajnzylber (1990) argued that the Latin American economies tend to be more inward looking and that they tend to export natural resources such as minerals and cash crops. Conversely, the international competitiveness of the East Asian economies comes from their manufacturing sector. Fajnzylber uses the ratio of exports to imports in the engineering industry as an index of this particular kind of international competitiveness and treats it as a third critical dimension distinguishing the U.S. and Japanese models of development. In 1986, the relevant ratios for these two countries were 64 and 1,317, respectively; during the 1979-1980 period, they were 0.35 for Argentina, 0.58 for Brazil, 0.10 for Mexico, and 0.71 for South Korea (Fajnzylber, 1990). These figures show that the United States and Japan were clearly much more successful in selling engineering products abroad than all the NICs. The differences among the NICs appear rather puny when compared to the distances separating them from the two advanced countries.
Since Fajnzylber’s (1990) writing, manufactures have continued to assume a larger share of total exports for Japan than for the United States (95% compared with 81% in 1997). A larger share of U.S. manufactured exports, however, came from the high-technology sector than did those for Japan (44% versus 38%). These more recent data therefore blur the substantive distinction that Fajnzylber sought to underscore by using the ratio of engineering exports to engineering imports previously noted. In contrast, the differences between South Korea and two of its Latin American counterparts seem to have become even sharper. Whereas 92% of South Korea’s 1997 exports were in manufactures, the comparable figures were 34% and 54% for Argentina and Brazil (World Bank, 1999). Mexico’s figure, standing at 81%, was clearly a significant exception to the Latin American norm. When focusing on the high-technology component of its manufactured exports, Mexico (33%) was also approaching the South Korean level (39%) and led Argentina (15%) and Brazil (18%) by a substantial margin. Mexico’s achievement in this regard may reflect the impact of the North American Free Trade Agreement and presents a departure from its earlier heavy reliance on oil exports and its lagging performance compared to Brazil’s manufacturing sector.

Fajnzylber’s (1990) fourth and last dimension refers to long-term economic dynamism as indexed by the average annual growth rate in per capita gross national product (1960-1979). Of course, this indicator not only measures the aggregate performance of the national economy in question but is also affected by a country’s demographic changes. Notwithstanding their recent economic problems, the East Asian countries have experienced a remarkably sustained period of high economic growth. They have simultaneously undergone a demographic transition that has curbed their population increase. In comparison, the Latin American economies have expanded less rapidly while their population has grown more. Relative economic performance affects other aspects of the political economy such as a regime’s political legitimacy, the intensity of distributive struggles, the amount of resources available to provide for enhanced human capital, and the public’s willingness to defer immediate gratification to save and invest for future gains—in short, providing the material and psychological bases for further development.

In addition to the above analytic dimensions, Fajnzylber (1990) refers to other empirical referents in discussing the distinction between what he called “endogenous modernity” and “showcase modernity.” The latter phenomenon indicates an enclave pattern of development whereby the replication of the American way of life is limited for the benefit of a small urban elite and pursued without a viable development strategy that seeks to include all segments of the population. This pattern is reflected by an ensemble of factors (space
limitation precludes a full discussion here). One such factor discussed by Fajnzylber is social disarticulation, which is in turn shown by a distorted income distribution, a high and disadvantaged workforce in agriculture, a large segment of the national population falling below the poverty line, and an underprovision of educational opportunities for the masses beyond the primary level. Consumption patterns present another factor. Fajnzylber includes concerns about a country’s indigenous capacity to produce staple foods and the composition of its people’s dietary nutrition (especially the elite’s heavy consumption of animal protein compared to the diets of the poorer masses) in discussing this factor. Still other factors address a country’s reliance on external borrowing, its vulnerability to capital flight, and the political autonomy and entrepreneurial elan of the national bourgeoisie.

Some of these indicators will be incorporated in an expanded version of Fajnzylber’s (1990) basic model outlined earlier. Still others will be added to capture dimensions beyond those discussed explicitly by Fajnzylber. Before turning to these matters, a caveat is in order. Neither the Latin American countries nor the East Asian countries are identical. Thus, for instance, Argentina has had a more egalitarian income distribution and a higher domestic capacity for food sufficiency than, say, Brazil. As another example, South Korea’s economy is dominated by a few large conglomerates, whereas Taiwan’s economy is characterized by many small- and medium-sized companies. Moreover, South Korea is more reliant on foreign capital (historically much more in debt than in direct investment) than Taiwan. Naturally, the East Asian and Latin American countries have not followed every aspect of the so-called Japanese and U.S. models of development. As will be seen shortly, this emulation is often incomplete. Some Latin American NICs have recently sought to draw lessons from their East Asian counterparts, and a country such as the Philippines can show considerable affinity with the U.S. model of development despite its geographic location in Asia. As already noted, in some respects such as exports with a high-technology content, Japan and the United States have far more in common with each other than with their respective follower nations. It is also difficult to argue that, for example, inadequate indigenous production of staple foods or deep penetration of foreign capital in the local economy, features attributed by Fajnzylber to the Latin American countries, are somehow among the traits or derivatives of the U.S. model of development. In short, one does not expect identical replication or lockstep imitation in the propagation of the Japanese and U.S. models of development. Indeed, whether there is even an empirical basis for claiming the existence of these models of development remains to be documented by systematic research.
CLUSTER METHODOLOGY

Can one discern empirical patterns supporting the Japanese and U.S. models of development? If so, do the East Asian and Latin American countries indeed emulate these models, respectively? Are there exceptions to the norms suggested by Fajnzylber (1990), and if so, which countries present such cases of “independent paths”? Moreover, are there countries that take on important features from both models, and can such cases of “split personality” be easily explained? What about countries such as China and Indonesia, whose conformity to either of the two models of development is ambiguous at least? In short, do the relevant countries align themselves in a manner that makes sense along the lines of historical and institutional development summarized in the previous section?

Cluster analysis offers a methodology to undertake such an inquiry. It seeks to group similar items in a common category while separating dissimilar items in different categories. As such, it serves a similar purpose as the perhaps more familiar Q type of factor analysis and multidimensional scaling (Kruskal & Wish, 1978). Cluster analysis, however, is generally more helpful for identifying taxonomic structures. Its application was in fact popularized by two biologists who wanted to establish a systematic means of evaluating the similarities and differences between organisms and to develop a numerical taxonomy of biological species. This research produced more than just a valid classification system because the resulting taxonomy also helped to articulate and substantiate a theory of biological evolution. This classic study by Sokal and Sneath (1963) served as a source of inspiration for other types of research applying the cluster method. It has been used, for example, by anthropologists to classify cultural artifacts, by sociologists to establish occupational categories, and by psychologists to differentiate personality types. With this multiplication of social science applications, there is also a rising variety of computation procedures and algorithms in implementing this methodology (Aldenderfer & Blashfield, 1984; Corter, 1996; Hartigan, 1975).

Despite these variations, the common purpose of all the cluster approaches remains the proper association of items according to an explicit measurement of the similarity in the defined characteristics of these items. These characteristics are deliberately selected so that they offer the most promising basis for profiling the cases being studied. Naturally, as in all kinds of analysis, this selection should be informed by a theoretical understanding of the substantive phenomena. Otherwise, the analysis degenerates into a mindless exercise of empiricism.
We will discuss in the next section the variables chosen for this study. There are, however, several other aspects of the study that should be addressed here. Because the variables are measured on different scales, they are standardized before cluster analysis is applied. As already mentioned, this methodology seeks to determine the similarity or proximity among the objects being studied. We follow the convention of using Euclidean distance for this purpose. There are many specific ways to establish the distance between two items (Aldenderfer & Blashfield, 1984). Some of the more popular alternatives are the single linkage, average linkage, median linkage, complete linkage, and Ward’s approaches. Each of these approaches has its advantages and disadvantages. In an effort to ascertain the robustness of the cluster results, all these approaches were undertaken for this study, although for reasons of space limitation, only the results of the Ward’s approach are reported in the next section. The results of the other approaches produce rather similar structures, so we are reasonably confident that our substantive conclusions are not subject to major changes due to alternative technical specifications.

The various approaches just mentioned, such as single linkage and complete linkage, refer to the criteria for merging cases or groups. As its name implies, the single linkage approach will assign a case to a cluster if at least one of the existing members of this cluster has the same level of similarity as the case being considered. In contrast, the complete linkage approach stipulates that to be joined with an existing cluster, the case under consideration must meet a certain level of similarity with all members of this group. The Ward’s approach seeks to minimize the amount of variance within each cluster. As such, its objective is to minimize the within-group sum of squares or the error sum of squares (Aldenderfer & Blashfield, 1984). This method is more popular in the social than in the biological sciences.

At the start of the cluster analysis, each of the objects (in our case, countries) represents a cluster by itself. The Ward’s method then searches for a pair of countries with the smallest error sum of squares so that this pair forms a new cluster. In the next step, the procedure selects another country to join one of the existing clusters (whether by merging this country with the cluster just formed or joining another pair of countries) with the same criterion of minimizing error sum of squares in mind. This routine unfolds in such a way that the smaller clusters become subsumed by the larger ones until all the cases or objects end up being assigned to one of two large clusters. In the later discussion, we will reverse this order. That is, we will start the discussion with the two largest aggregations and then proceed to address increasingly distinct and therefore smaller clusters that are nested in the larger groups.
VARIABLES AND DATA SOURCES

The cluster analysis is applied to three versions of political economy derived from Fajnzylber’s (1990) discussion. The basic model is the most straightforward and consists of the four substantive dimensions specifically singled out by Fajnzylber. These dimensions, as discussed earlier, are consumption orientation (as measured by the number of passenger cars per 1,000 people in 1997), income distribution (as measured by the ratio between the top and bottom quintile of income groups from the most recent year with available data), industrial competitiveness in international trade (as measured by the share of manufactured exports from the high-technology sector in 1997), and economic dynamism (as measured by average annual growth rate of gross national product per capita from 1965 to 1997). The variables chosen are intended to capture the substantive concerns expressed by Fajnzylber although they are not identical to the ones used in his analysis.

The expanded model includes additional variables gleaned from Fajnzylber’s (1990) discussion of the Latin American political economies. These extra variables are (a) the percentage of labor force employed in the agricultural sector, (b) the percentage of student age group actually enrolled in secondary and tertiary education, (c) the percentage of total exports accounted for by manufactured products, (d) the percentage of total imports accounted for by food items, (e) the export of goods and services as a percentage of gross domestic product, (f) the level of debt burden (total debt service as a percentage of exports of all goods and services), (g) the importance of foreign capital (foreign direct investment as a percentage of gross domestic investment), (h) the influence of state-owned enterprises (the percentage of gross domestic investment captured by these enterprises), and (i) the number of scientists and engineers per million people. These variables address specific substantive points raised in Fajnzylber’s discussion of the Latin American political economies. The extent to which these attributes can be ascribed to the U.S. model of development, however, is much more problematic. Incidentally, some of the variables suggested by Fajnzylber, such as the size of the population segment falling below the national poverty line and the relative price of cereals, have to be dropped from the analysis due to severe problems of missing data.

The interpretive model, however, introduces still other variables to join those forming the expanded model. These additional variables were not addressed explicitly or extensively by Fajnzylber (1990) and are included in the analysis more as a result of inference from his discussion. They are (a) gross domestic investment as a percentage of gross domestic product, (b) general government consumption as a percentage of gross domestic product, (c) the
percentage of childbirths accounted for by mothers younger than 20, and
(d) the number of firearms-related deaths per 100,000 people. Differential
proclivity for capital formation and fiscal conservatism can be reasonably
inferred from Fajnzylber’s analysis. The Latin American countries tend to
have lower investment figures than their East Asian counterparts, and their
public sectors tend to consume a larger share of the economic product. The
number of babies born to young mothers offers a proxy for human capital and
social integration. It is also reflective of the education and employment
opportunities available to the more disadvantaged groups in a society. The
frequency of deaths due to firearms indexes a particular kind of interpersonal
violence and presents an especially graphic revelation of the manner in which
a society balances the desiderata of personal freedom and public safety.

The East Asian and Latin American countries as well as Japan and the
United States show strikingly different patterns with respect to these indica-
tors. About 13.1% of U.S. babies were born to teenage mothers in contrast to
1.3% in Japan during the same period (1991-1997). The comparable figures
for the NICs were 15.7% for Argentina, 18.0% for Brazil, and 15.7% for
Mexico but only 0.9% for South Korea. The differences in deaths caused by
firearms were also quite dramatic. In the United States, 14.24 per 100,000
deaths were related to firearms whereas in Japan this figure was 0.05. These
fatality figures were 8.93 for Argentina, 12.95 for Brazil, 12.69 for Mexico,
but 0.12 for South Korea. Other East Asian cases also show consistently low
incidence of childbirths by teenage mothers or deaths caused by firearms. For
instance, only 1.9% and 1.5% of Hong Kong’s and Singapore’s babies,
respectively, were born to mothers younger than 20. Likewise only 0.14 and
0.21 per 100,000 of their deaths were due to the use of firearms.

The World Bank (2000) and U.N. Development Programme (1999) pro-
vide most of the data for this inquiry. Information on deaths due to firearms is
drawn from Krug, Powell, and Dahlberg (1998). Because Taiwan is not
included in the World Bank’s reports, we rely instead on the Council for Eco-
nomic Planning and Development (1999). Finally, data for some variables
are missing for some countries. To not lose these cases in the analysis, they
are given the mean values of the relevant variables. Nevertheless, severe
problems of missing data still necessitated dropping countries such as Viet-
nam and Papua New Guinea from the analysis. There are in the end 32 cases
available for the cluster analysis. The cluster analysis does not use any of the
conventional variables for determining physical, political, or cultural prox-
imity (such as geographic contiguity, alliance ties, regime ideology, eco-
nomic development, religious or ethnic similarity, common colonial heritage,
shared political system, or long-standing economic, cultural, or political
interaction).
ANALYSIS RESULTS

So what do the cluster analyses show? The results are reported in Tables 1, 2, and 3, referring respectively to the basic, expanded, and interpretive models described in the previous section. These tables present results in a top-down manner. That is, they proceed from the most general level of aggregation to increasingly more specific clusters. This presentation is truncated because we omit the additional breakdown of cases beyond 12 clusters.

If the 32 political economies are to be placed in one of two large groups (as indicated under column 2 in Table 1), they would neatly form an Asia Pacific and a Latin American cluster. As already noted, this analysis did not incorporate any geographic or economic variable that directly measures physical distance or national income. Thus this breakdown of the cases is quite remarkable in that it follows rather closely geographic, developmental, and institutional (specifically, membership in the Asia Pacific Economic Cooperation [APEC] forum) lines of demarcation. The United States, Canada, Australia, and New Zealand join Japan and the other East Asian political economies to form one cluster (as denoted by the score 2 under column 2, Table 1), and all the Latin American cases (receiving a score of 1) constitute the other cluster. This division of the cases explains about 38% of the data variance. While suggesting a distinct Latin American category, this pattern also indicates that the United States is not part of that category, as implied by Fajnzylber’s (1990) discussion.

Remarkably, one East Asian country, the Philippines, is classified as a member of the Latin American group. It was a Spanish and, later, U.S. colony. Its political economy—featuring a traditional hacienda culture, relative reliance on cash crops (sugar, coconut, banana), and a comparatively stagnant economy in juxtaposition to its neighbors—is most similar to the Latin American prototype as described by Fajnzylber despite its physical location in East Asia (Hawes, 1987). This apparent deviant case actually provides valuable insight suggesting “the exception that proves the rule”—in the same way that Haiti was assigned to Africa and Israel to Western Europe in other empirical analyses of regional ecology (see, for example, Russett, 1967).

Under column 3 of Table 1, we learn that the Asia Pacific group is based on two lower level clusters. One of these consists of those political economies with a score of 2. Members of this cluster are the developed countries, namely, the United States, Canada, Australia, New Zealand—and Japan. Their pattern of association underscores again the tendency for these advanced industrial democracies to share more in common with each other than with their supposed developing “followers.” The other cluster, consisting of cases scoring 3, includes all the East Asian cases except Japan and the
At this level of generality, it turns out that these East Asian political economies are more similar to each other than they are to Japan. At the same time, these same results show that the developing countries in East Asia and Latin America do have rather distinct political economies, as Fajnzylber (1990) contended. About 59% of the data variance is accounted for by the trichotomy presented under column 3.

Table 1

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Philippines. At this level of generality, it turns out that these East Asian political economies are more similar to each other than they are to Japan. At the same time, these same results show that the developing countries in East Asia and Latin America do have rather distinct political economies, as Fajnzylber (1990) contended. About 59% of the data variance is accounted for by the trichotomy presented under column 3.
We see under column 4 of Table 1 that the Latin American group featured under column 2 was the result of merging two smaller clusters. One of these clusters is formed by Brazil, Guatemala, Panama, and Paraguay. One salient feature characterizing these countries and distinguishing them from the others is the extreme extent of asymmetry in their income distribution. They have the widest gap between the rich and poor in our sample, with a ratio
between the top and bottom quintile of income segments of 25.7 (Brazil), 30.0 (Guatemala), 26.3 (Panama), and 27.1 (Paraguay). How similar or different from the rest of the Latin American countries (with a score of 1) are these four cases? One can compare the \( R^2 \) figures under columns 3 and 4. When these cases are combined into one cluster, one loses about 12% in the amount of data variance explained.

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\( R^2 \) figures:

- .25 .39 .53 .58 .64 .67 .70 .73 .75 .78
Comparing the $R$ square figures under columns 2 and 3, there seems an
even sharper difference between the two constituent groups subsumed by the
generic Asia Pacific cluster. When these two groups are collapsed into one
category, the $R$ square is reduced by 21%. Put differently, the differentiation
of the two parts of the generic Asia Pacific cluster is highly meaningful, as it
accounts for 21% of the data variance. Its substantive importance is only sec-
ond to the distinction between the generic Asia Pacific cluster and the generic
Latin American cluster under column 2—a dichotomization that, as already
noted, explains fully 38% of the data variance.

What could account for the cluster formed by the Philippines and Nicara-
gua under column 5? It seems that this category is distinguished by a combi-
nation of economic stagnation and high-technology exports. With an average
annual rate of change in per capita gross national product of 0.9% and −3.4%,
respectively, during the 1965-1997 period, these countries feature two of the
worst records of economic performance in our sample. Although manufac-
tured goods accounted for a comparatively small share of their total exports
(45% and 25%, respectively), a relatively high portion of these goods was
considered by the World Bank to have come from the high-technology sector.
This phenomenon reflects the role of these countries as export platforms for
foreign investors. Note, however, that the Philippines and Nicaragua were
joined in the same category at a relatively late stage of the analysis (undercol-
umn 8).

As one moves from the left to the right side of Table 1, one probes deeper
into the root clusters from which the larger and more generic categories are
derived. The increase in the refinement of and discrimination among the
more specific categories, however, is accompanied by a diminishing return in
analytic gain, as indicated by increasingly smaller increments in $R$ square.
Under column 6, we see one of the component clusters of the broad Asia
Pacific group. This cluster, made up of Malaysia and Singapore, presents an
almost polar opposite of the Philippines-Nicaragua pair. At 67% and 71%,
Malaysia and Singapore feature, among the cases considered here, the high-
est high-technology content in their manufactured exports. They also show
very respectable records of economic growth (with an average annual rate of
increase in per capita gross national product of 4.1% and 6.3%, respectively,
during the 1965-1997 period). The creation of a separate Malaysia-Singa-
pore cluster adds only 6% to the cumulative $R$ square.

Under column 7, Chile, Colombia, Mexico, and the Dominican Republic
have a higher percentage of their manufactured exports coming from the
high-technology sector in comparison with the other Latin American cases,
and they exhibit great income inequity, albeit not to the extreme degree of
Brazil’s or Guatemala’s. Under column 8, two former Japanese colonies—South Korea and Taiwan—present a cluster exemplifying “growth with equity.” And, under column 9, Canada and New Zealand are joined by virtue of their high incidence of passenger cars but the low high-technology content of their manufactured exports. Again, the creation of increasingly finely distinguished categories has a diminishing rate of return as far as variance explained is concerned. One does not sacrifice much in explanatory power thus defined (2% of $R^2$) if, say, one uses seven rather than eight categories to classify the cases in Table 1.

Significantly, Japan and the United States are consistently assigned to the same category throughout that portion of the analysis results reported in Table 1. They were joined in the same cluster before, for example, Bolivia and Ecuador, Chile and Colombia, or Brazil and Paraguay joined their neighbors to form a generic Latin American group. Therefore, Japan and the United States have more in common than the other countries just mentioned. Placing Japan and the United States in the same cluster causes a loss of $R^2$ square of less than 1%, thus suggesting that the differences between these two cases are hardly statistically significant. These findings surely undermine the basic premise of Fajnzylber’s (1990) arguments. Although the East Asian and Latin American political economies do appear to present rather distinct profiles, their respective forms do not follow closely the Japanese and U.S. cases—at least not in this operationalization of the basic model.

Are the patterns based on the basic model generally replicated when we add more variables in the expanded model? Table 2 reports the latter results. Clearly we see the duplication, at the highest aggregate level (i.e., under column 2 where all the countries are assigned to one of two generic clusters), of a Latin American group (although now without the Philippines) and an Asia Pacific group consisting of all the major members of APEC. This bifurcation of the cases is able to account for 27% of the data variance. This figure goes to 43% when we establish three categories. Under column 3, we observe again that the APEC group is derived from two smaller clusters: one consisting of the more advanced industrial countries (now including South Korea and Taiwan in addition to Japan) and another with China, Hong Kong, and the members of the Association of Southeast Asian Nations. Each of these clusters is in turn the product of merging two still lower level clusters. In one case (under column 7), Australia, the United States, New Zealand, and Canada form one such branch and South Korea, Taiwan, and Japan present the other branch. In the other case (under column 4), Singapore constitutes a cluster of one in juxtaposition to its East and Southeast Asian neighbors. Singapore’s rather distinct status is suggested by the fact that it does not give up its separate identity
until the next to last iteration of the agglomeration procedure. Joining this
country with the rest of the Asian political economies results in a loss of about
8% in variance explained (compare the $R^2$ square between columns 3 and 4).
Suggesting its relative uniqueness, Venezuela likewise refrains from being
absorbed into a larger Latin American cluster until the cases in our sample
have been reduced to nine groups (under column 9).

Some of the findings reported in Table 2 are intriguing and contradict
some popular expectations. As former British colonies with a large Chinese
population and specializing in entrepot trade, Hong Kong and Singapore are
often portrayed as kissing cousins, if not twins. As members of the Organization
of Petroleum-Exporting Countries, Ecuador and Venezuela should perhaps
present similar profiles in their political economy. In fact, our analysis
shows significant differences between members of these pairs—differences
that are much sharper than those separating the Japanese and U.S. cases.
Given the rather important structural differences in their political economy
beyond superficial similarity, the failure of some cases (such as Hong Kong
and Singapore; Krause, 1988) to be joined early on in the cluster procedures
provides positive evidence. It is also reassuring that other cases expected to
coalesce do in fact do so. The tendency for the United States, Canada, Australia,
and New Zealand to converge offers one example. The mutual affinity of
Japan, South Korea, and Taiwan is another case in point (Cumings, 1984).

Most important, the results presented thus far suggest that although as
Fajnzylber (1990) has contended, the East Asian and Latin American coun-
tries do tend to differ rather sharply on several crucial dimensions of their
political economy, there are also substantial variations within each of these
two generic groups. The three Latin American countries singled out by
Fajnzylber for analysis (Argentina, Brazil, and Mexico) do indeed have more
in common with each other (besides their sheer geographic, demographic, or
economic size) than with Bolivia, Chile, Colombia, and Venezuela, and they
are more similar to the latter countries than they are to the rest of Latin
America—and, certainly, to the North American or East Asian countries.
Similarly, South Korea and Taiwan show the greatest affinity with each other,
than with Japan, followed by the North American and Oceanic countries and,
finally, their other Asian neighbors. This hierarchy argues that South Korea
and Taiwan have followed the Japanese model of development. The
generalizability of this model, however, appears to be limited to these two
cases and does not extend to the other Asian cases. Moreover, there is scant
evidence that the Latin American political economies have emulated the U.S.
model of development because the cluster analysis consistently suggests that
the U.S. profile is more different from than similar to the Latin American
prototype. The United States was never assigned to the same cluster with any
Latin American country; it instead shows much greater proximity to the Asian and Oceanic members of APEC, including Japan.

We see the general patterns discussed so far repeated in Table 3. Despite the fact that the number and variety of variables have increased rather sharply from the basic model to the interpretive model, two generic Asia Pacific and Latin American groups again emerge as the most basic conclusion. The Philippines finds itself again in the Latin American group, hence suggesting its dual characteristics. As before, the results show that the Asia Pacific group is the product of joining two distinct APEC clusters along the lines of discussion for Table 2. These clusters can in turn be traced to their derivative categories. Thus, for instance, one of these clusters is based on a subgroup consisting of Australia, Canada, New Zealand, and the United States and on another subgroup consisting of Japan, South Korea, and Taiwan. The other cluster comprises a subgroup with China, Indonesia, and Thailand and another subgroup with Hong Kong, Malaysia, and Singapore as its members. It can be said that the countries associated with this cluster have pursued a more independent path of development as they have maintained profiles that are relatively distinct from those exemplified by the United States and Japan.

Parenthetically, Singapore’s relative uniqueness is again confirmed by the fact that it did not merge with Hong Kong and Malaysia until the number of clusters had been reduced to eight. This city state appears to present more as a class by itself than, say, Venezuela and the United States. Again, the $R^2$ figures inform us about the relative distinctiveness of these political economies (2% for Singapore, 3% for Venezuela, and 2% for the United States). Adding the incidence of teenage mothers and deaths caused by firearms to the analysis makes the United States appear more different from the other cases in Table 3 than in Tables 1 and 2.

Table 3 also provides information showing how the process of folding lower level categories into higher level categories has proceeded for the Latin American countries. For instance, we see under column 7 three subcategories of Latin American countries consisting of those with a score of 2 (all the smaller Central and South American countries), those with a score of 4 (the Dominican Republic, Bolivia, Chile, Colombia, and Venezuela), and those with a score of 6 (Argentina, Brazil, and Mexico). The latter two subcategories are merged under column 6, and their joint category is in turn combined with the first subcategory to form a broad generic Latin American category under column 4. These taxonomies appear to conform to our intuitive sense about how national affluence, economic size, political democracy, or cultural proximity should have differentiated or combined the cases in our sample. These cluster patterns, however, were reached without resort to any direct measures of these traditional markers for distinguishing political economies.
CONCLUSION

The cluster analyses point to two generic and distinct prototypes of political economy characteristic of the Asia Pacific and Latin American countries. Among the former cases, there is some evidence of a Japanese model of development. This model is subscribed to by South Korea and Taiwan and does not apply well to the other Asian cases. Moreover, it tends to be subsumed by a larger category consisting of almost all the APEC members, including the United States.

The U.S. case does not serve as a model for the Latin American countries, as Fajnzylber (1990) has argued. In many respects (e.g., the number of passenger cars, agricultural workers, scientists and engineers, students pursuing post-primary education), it is more similar to Japan and the Asian NICs than to the Latin American countries. The cluster analyses confirm this general finding, although there clearly are also areas of convergence between the U.S. and Latin American cases (e.g., in their respective rates of capital formation, teenage mothers, and deaths due to firearms). If there is such a thing as a U.S. model of development, its subscribers tend to be Canada, Australia, and New Zealand. The Latin Americans’ emulation of the U.S. political economy tends to be quite incomplete. This incompleteness perhaps holds the key to explaining many of the development difficulties experienced by the Latin Americans. Their policy institutions and social structures have adopted some attributes of the U.S. model described by Fajnzylber (e.g., exuberant consumption, inequitable income distribution) without imitating other aspects (e.g., highly productive agriculture, dynamic high-technology sectors, a large pool of scientific talent).

Of course, the Asian NICs—including Japan—did not always have the attributes they currently possess. They were saddled not so long ago with anemic growth, failing agriculture, intense political strife, large income disparities, and an uncompetitive workforce. Anyone familiar with the plight of these countries immediately after World War II hardly needs to be reminded of this history. Had the cluster analysis been based on data from the late 1940s or early 1950s, there would almost certainly not be an Asia Pacific group encompassing both the victorious allies such as the United States, Canada, and Australia and the devastated economies of Japan, South Korea, Taiwan, and China. One would thus presume that mobility and change are possible. Countries are not locked into a particular structural position or development trajectory.

At the same time, however, institutions and ideologies are “sticky.” Once created, they tend to be resistant to change. Moreover, they can command a regional presence beyond the borders of any given country. That the Latin
American countries consistently line up to form a single generic cluster points to this pervasiveness. That the Philippines joins their ranks testifies to the power of historical legacies. The purpose of classification efforts such as the one attempted in this article is not necessarily to trace the genealogy of different political economies. Nevertheless, they do help to make the point that national development has a path-dependency quality to it (Rueschemeyer, Stephens, & Stephens, 1992). The past does matter. In addition, development policies cannot be but a product of the broad social, cultural, and historical context of a political economy. They cannot be easily transplanted from one context to another without acknowledging the relevant differences in political institutions and culture. Despite the need to compete in a global marketplace, U.S., Japanese, and German companies show persistent differences in their internal governance, research and development activities, and long-term financial and outsourcing arrangements (Pauly & Simon, 1997).

Although based specifically on one person’s formulation of different types of political economy, this study speaks to several larger questions of interest to analysts of international relations and comparative politics. The cluster associations are informative of the political reach and ideological appeal of hegemons or would-be hegemons. Fajnzylber’s (1990) discussion of the Japanese and U.S. models of development points to the extent to which others have borrowed their institutions, imitated their practices, and accepted their values. Soft power, after all, is the ability to shape others in one’s own image (Nye, 1990). It is a vastly different form of projecting national power and influence than the seizure and control of physical assets such as those indexed by foreign investment, trade exchange, or military intervention. It works on co-optation so that others adopt voluntarily one’s model of political economy as their own. Such emulation in turn frames subsequent policy discourse and shapes policy agenda. It has the reciprocal effect of perpetuating the existing institutions and interests. From the perspective of developing countries, this foreign influence beyond overt conquest or direct control is what charges of neocolonialism are all about.

How does one think about and empirically measure spheres of influence? Instead of relying on the counting of United Nations votes, trade volume, and arms sales, there is an alternative approach revolving around questions such as whose political institutions, business ethos, cultural icons, and social customs tend to be followed and adopted by other people. The latter indicators point to deeper and more enduring ties that bind and that are less subject to disruption (such as in the case of the Iran-U.S. relationship despite these two countries’ close economic, political, and military rapport before the Shah’s demise). Much of the debate about the so-called globalization phenomenon
appears to hinge on the competitive export and emulation of norms and practices with a distinct national origin (Barber, 1995). It is about the structural power (Caporaso, 1978) to set the rules and influence the values for others. Serialization of the sort of snapshots presented in this article should help to track the expansion and contraction of realms defined by such soft power and to identify and study critical junctures in the evolution of political economies.

The idea of punctuated equilibrium in biological evolution offers a promising analog for studying the transformation of political economies. In both cases, the objects of analysis display enduring continuity interrupted by occasional sharp breaks. The breaks occur at times when change becomes possible, desirable, and even imperative. They point to critical junctures in history that lay the foundation for a new order and that introduce the next round of continuities. They can be due to historical serendipity and environmental shocks. The demise of Japanese colonialism at the end of World War II, the communist victory in China, and the outbreak of the Cold War and of the ensuing hot war in Korea presented these foundational moments for South Korea and Taiwan. Business as usual became impossible, and basic reforms were undertaken to chart a new course in the face of both the stick of communist challenge and the carrot of U.S. foreign aid. Historical analysis of such foundational moments—of opportunities that were missed, grasped, or never presented—would be informative. Just to pose one counterfactual question: How differently would the Latin American political economies have evolved if Fidel Castro had been as successful as Mao Tse-tung in carrying out his revolutionary program across the continent?

Shocks of internal or external origin may provide the necessary catalyst for fundamental change. Yet change can also occur more gradually but still profoundly due to intergenerational replacement. Inglehart’s (1997) analysis of cultural shift due to the ascendance of postmaterialist values is especially pertinent here. Is it possible that the characteristics assigned to the East Asian countries—such as an emphasis on savings over spending, work over leisure, exports over imports, and deference to authority over individual expression—are merely the social ethos for a given historical moment? With the satisfaction of basic survival needs and the completion of the state-guided phase of industrial catch up, has not Japan already joined the Organization of Economic Cooperation and Development members whose cultural heritage is decidedly different from Japan’s? Would it not be reasonable to expect similar convergent tendencies on the part of the other Asian NICs as those policy institutions and social customs reminiscent of the bygone era of material deprivation and authoritarian rule give way to others that are more congenial to current and future circumstances (Inglehart, 1997)? It may be that not only
certain political institutions, social customs, and cultural values can help or hinder economic development (as Fajnzylber, 1990, and others have argued), but also that changing economic conditions can have a reciprocal influence on these institutions, customs, and values. Survey results of popular views show that although characterized by different cultural traditions and economic levels, most countries are undergoing value changes in the same direction (albeit at different speeds). This trend in turn implies that culturalist interpretations that stress unique Asian values may be unwarranted and that some of the earlier charges of ethnocentrism directed at the so-called modernization scholarship of the 1950s and 1960s may be unjustified.

REFERENCES


Steve Chan is a professor of political science at the University of Colorado in Boulder. His recent research has focused on the effects of political conditions on economic policies and development paths and vice versa.
A decade after the collapse of communism, Russia still lacks a robust party system. Most institutions of the state are immune from party influence. However parties play a central role in the lower house of parliament, the State Duma. Why? Why have parties been successful in organizing and influencing the work of the State Duma but enjoyed only very limited success elsewhere? This article argues that parties in Russia are weak in general because the most powerful politicians in Russia have made choices to make them weak. Cultural, historical, and socio-economic factors play a role in impeding party emergence, but individual decisions—especially decisions about institutional design—are the more proximate and more salient causes of poor party development. The privileged position of parties in the State Duma also resulted from individual choices, but those choices had unintended consequences that did not represent the preferences of the most powerful.

EXPLAINING PARTY FORMATION AND NONFORMATION IN RUSSIA
Actors, Institutions, and Chance

MICHAEL McFAUL
Stanford University

A party system is an essential attribute of a democratic policy. If there are no parties, there is no democracy (Lipset, 2000). Despite the erosion of party influence in old democracies and the difficulties of establishing new parties in new democracies, theorists still agree that parties and a party system are necessary evils for the functioning of representative government. In liberal democracies, parties perform several tasks. During elections, they provide voters with distinct choices, be they ideological, social, or ethnic. After elections, parties then represent the interests of their constituents in the formulation (and sometimes implementation) of state policy. The degree of party penetration of state institutions need not correlate directly with a given party’s power over policy outcomes. Empowered by expertise or connections

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to key decision makers, small parties can have inordinate influence over policy debates, whereas large parties may suffer the opposite: no expertise, no personal networks, and therefore little influence over policy. Yet some degree of representation within the state is usually necessary for a party to influence policy outcomes.

The crux of party power comes first from participation in elections and then from winning representation within the state. In consolidated democracies, parties are the most important part of the representative structure, aggregating societal interests and then representing those interests within the state. In fact, the degree of party control over the structuring of electoral choices and the subsequent party penetration of significant state bodies serve as good proxy measures for party development. Successful parties and developed party systems must be able to influence the vote and then win representation within the state to influence policy making.

By this set of criteria, party development in Russia has a long way to go. Parties do influence electoral choices in some elections, but not in all. In elections in which parties play a central role, they do not enjoy a monopoly in structuring the vote. Consequently, parties have only limited representation within the state and even less influence on the state’s actions. The one oasis of party development has been the State Duma, the lower house of parliament. Parties have played a central role in parliamentary elections, have won seats in this legislative organ, and have been able to translate their electoral successes into parliamentary power by organizing the internal operation of the Duma in ways that privilege parties. But in every other part of the Russian government—the presidential administration, the federal government, the Federation Council, regional heads of administration, and regional parliaments—parties have played a marginal role in structuring votes and an even lesser role in penetrating or influencing these other governmental entities.

Why have parties been successful in organizing and influencing the work of the State Duma but enjoyed only very limited success elsewhere? Why has party success within the Duma not stimulated party development elsewhere? Is Russia’s current weak party system a temporary outcome or a permanent feature of Russian politics?

This article argues that parties in Russia are weak because the most powerful politicians in Russia have made choices to make them weak. Cultural, historical, and socioeconomic factors play a role in impeding party emergence, but individual decisions—especially decisions about institutional design—are the more proximate and more salient causes of poor party development. At the same time, the privileged position of parties in the State Duma also resulted from individual choices about institutional design. But these consequential design choices had unintended consequences that did not represent
the preferences of the most powerful. As a result, antiparty forces may overrun even this bastion of party power. Both the 1999 parliamentary election and the 2000 presidential election suggest that such an assault may occur soon.

To demonstrate the centrality of individual choices about institutional design in the making and unmaking of Russia’s party system, this article proceeds in a somewhat unorthodox fashion by pushing the causal chain back one step in each section. The first section provides a rough measure of Russian party development by focusing on the electoral and representative roles of parties in Russia. An attempt is then made to quantify the degree of party penetration into Russia’s main political institutions, which are filled through popular election. The second section explains the results described in the first section. After exploring the many structural constraints on party development, the importance of institutional design for both stimulating and stunting party development is highlighted. The third section then pushes the causal arrow back one step further to explain the origins of the institutions described in the second section. The argument is made that almost all of the institutional arrangements for choosing elected leaders reflect the preferences of Russia’s most powerful actors, those who have not needed parties to remain in power. The one exception is the electoral law for the State Duma, that is, the one institution that has encouraged party consolidation. In several respects, this law was an accident of history—an accident that is likely to be “corrected” in the future. The final section offers conclusions.

MEASURING PARTY DEVELOPMENT IN RUSSIA

There are many different ways to measure party development. Some like to count members. Some like to measure partisanship among voters. Others like to trace party influence over policy outcomes. Each of these approaches has strengths and weaknesses. The first two approaches can be quantified but provide only proxy measures for party development and party influence. The party with the largest membership does not always enjoy the greatest electoral success or highest level of influence over policy outcomes. Conversely, low or declining levels of partisanship do not necessarily translate into a loss of party dominance at the polls or in policy making. The third measure—party influence over outcomes—is most interesting but is also the most difficult to trace (Laver & Budge, 1992).

A fourth approach for calibrating party development—measuring the electoral success and subsequent degree of party representation within state bodies—is used here. In the causal chain between party organization, party
identification in society, electoral success and/or representation in the state, and ultimately influence over policy outcomes, this measure assesses the penultimate step. Although many other variables intervene to dilute or enhance the influence of parties over policies after elections have occurred, some degree of success at the polls and, subsequently, some degree of representation within the state are necessary conditions for policy influence in most countries. Analysts of party development also have asserted that the “party-in-government” often precedes the development of extra-parliamentary organizations or the “party-in-the-electorate,” suggesting that the party-in-government is a good place to start for tracing party development in a young democracy such as Russia (Key, 1964). This stage in the chain also can be quantified much more easily than either the earlier stages in the causal chain or the final stage.

THE FEDERAL EXECUTIVE

Without question, the most powerful position in the Russian political system is the office of president (Shevtsova, 1999). To date, parties have played a marginal role in structuring presidential votes and have enjoyed no success in gaining party representation within the president’s office or the presidential administration. Party leaders have participated in presidential elections. In the 1996 vote, three of the top five finishers were party leaders, whereas the Communist Party of the Russian Federation (CPRF), Gennadii Zyuganov, advanced to the second round. In the 2000 vote, party leaders again participated, but the winner, as in the 1991 and 1996 elections, was not a party member.

Through the Duma, parties have played some role in influencing the composition of the federal government. Formally, the distribution of power between parties in the Duma does not have direct influence on the selection of the prime minister or other ministers in the federal government. This institutional arrangement severely weakens the role of parties in the formation of the government and therefore weakens the role of parties more generally. After crises, however, parties in the Duma have managed to influence the choice of prime minister and the composition of the government. Following the December 1993 elections, Yegor Gaidar and Boris Fyodorov resigned from their posts in the government after their party, Russia’s Choice, suffered a devastating defeat at the polls. Prime Minister Chernomyrdin subsequently invited representatives from the Agrarian and Communist parties to join his team as a way to reflect (albeit only partially) the will of the people within his

1. Obviously, there are other ways to map this causal chain depending on the country in question.
government as expressed in the parliamentary election. After the August 1998 financial crash, opposition parties in the Duma demanded the resignation of the liberal Prime Minister Sergei Kiryenko and succeeded in promoting the appointment of a left-of-center candidate, Yevgeny Primakov. Primakov then appointed CPRF leader Yuri Maslyukov as his first deputy prime minister.

In all of these cases of party penetration of the government, however, the president and the prime minister were not obliged to bring in party members. When party members did join the government, their allegiances usually transferred to the prime minister and drifted away from their party leaders and organizations. More generally, the composition of the government has never reflected the balance of forces within the Duma.

THE FEDERATION COUNCIL

The Federation Council, the upper house of the Russian parliament, is another party-free state institution. Although the rules of its formation have changed throughout the 1990s, its members do not rely on party support or party identification to obtain their seats in the council. Committees and regional associations, not party factions, organize the internal work within the council. A number of Federation Council members did adopt party affiliations in the run up to the 1999 elections to the State Duma, the lower house of parliament (Petrov & Titkov, 1999). Most important, nine regional executives joined forces to form the electoral bloc Fatherland–All Russia (Otechestvo-Vsya Rossiya or OVR). Yet this coalition quickly fell apart after the 1999 vote. Similarly, the progovernmental electoral bloc, Unity (Medved), garnered the endorsement of dozens of Federation Council members during the 1999 parliamentary campaign, but only one of these regional leaders actually joined Unity. Notably, none of these regional leaders joined these blocs as a means to enhance their own electoral prospects. Putin’s new formulation for forming the Federation Council, which now has representatives to the Federation Council nominated by regional executives and legislatures rather than the regional executives and chairs of regional parliaments themselves, is likely to weaken party influence in this chamber even further.

THE STATE DUMA

Elections to the State Duma constitute the one arena in which parties have played a major role. Likewise parties have played a central role in the internal organization of this legislative organ and have a direct influence over Duma policy outputs. But this party dominance is neither growing nor even stabiliz-
ing. In fact, the electoral results of the 1999 parliamentary elections suggest that party influence over this institution may be waning. This privileged position has not translated into increased party influence in the remaining single-mandate district elections. Even on the party-list ballot, parties have begun to lose control of the vote.

The party-list ballot: Parliamentary parties versus presidential coalitions. Russia’s current electoral system for the State Duma accords parties a privileged position regarding the selection of 50% (225) of Duma members. This 50% allocation goes proportionally to parties that receive at least 5% of the popular vote in a national election (for a single electoral district). As discussed in detail as follows, proportional representation has helped to stimulate the development of interest-based or ideological parties within the Duma. After three parliamentary elections in the 1990s, the core of a multi-party system did appear to be consolidating by the end of the decade. This core is composed of four national parties—the CPRF, Yabloko, the Liberal Democratic Party of Russia (LDPR), and the Union of Right Forces. When compared with each other, these four parties share many attributes that can also be identified in parliamentary parties in other political systems.

First, all of these parties participated in all Duma votes in the 1990s.2 The ability to field national party lists and candidates in three consecutive national elections suggests that these four parties have financial resources, brand names, and organizational capacities. Three of the four have enjoyed representation in all three parliaments that have served since 1993.

Second, all four parties have well-defined political orientations, loyal electorates, and notable leaders. In focus groups commissioned by the author in 1999, voters indicated that they knew these parties well, in fact, much better than they knew other parties competing in this same election (Byzov, 2000). The Communist Party is Russia’s left-of-center party, the Union of Right Forces and Yabloko are liberal parties, and Zhirinovsky’s LDPR is a more nationalist party. Demographic patterns also correlate with partisan sympathies. For instance, the older, poorer, less educated, and more rural are most likely to support the CPRF, whereas the young, rich, more educated, and urban are more likely to vote for Union of Right Forces or Yabloko (Colton, 2000).

Third, as Table 1 demonstrates, three of the four parties won roughly the same percentage in the 1999 election that they won in December 1995, suggesting that these parties might be developing loyal followings. The CPRF...
won almost exactly the same percentage, with a slight improvement, over its 1995 showing. Yabloko lost a percentage point—a big blow to the party but a small variation when compared with Yabloko totals in 1995 or even 1993. The Union of Right Forces performed surprisingly well in 1999, although the total electoral support in 1995 (when adding together the small blocs that divided their vote in 1995) is not that different from 1999. Zhirinovsky’s LDPR suffered a sharp decline and lost nearly half of its electoral support, suggesting that the LDPR may be the weakest of these four “old” parliamentary parties. Given all that has happened in Russia during the past 4 years—the 1996 presidential election, the August 1998 financial crash, rotating prime ministers, and the wars in Kosovo and Chechnya—what is most striking about these results is the stability, not volatility, of aggregate support.3

Significantly, no new ideologically based party has managed to challenge these established parties for their political niches. New nationalist, communist, and liberal parties have formed; some even have long histories and famous leaders. But none captured more than 2% of the popular vote in the 1999 election.

An additional feature shared by all of these parties is that they have acted together to make the Duma a party-centric institution.4 In the first post-Soviet

<table>
<thead>
<tr>
<th>Political Party and/or Bloc</th>
<th>1999 (%)</th>
<th>1995 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communist Party of the Russian Federation</td>
<td>24.29</td>
<td>22.7</td>
</tr>
<tr>
<td>Yabloko</td>
<td>5.93</td>
<td>7.0</td>
</tr>
<tr>
<td>Union of Right Forces</td>
<td>8.52</td>
<td></td>
</tr>
<tr>
<td>Democratic Choice of Russia</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>All right-wing parties(^a)</td>
<td>8.1</td>
<td></td>
</tr>
<tr>
<td>Liberal Democratic Party of Russia and/or Zhirinovsky Bloc</td>
<td>5.98</td>
<td>11.4</td>
</tr>
<tr>
<td>Unity (Medved)</td>
<td>23.32</td>
<td>NA</td>
</tr>
<tr>
<td>Fatherland–All Russia</td>
<td>13.33</td>
<td>NA</td>
</tr>
<tr>
<td>Our Home Is Russia</td>
<td>1.2</td>
<td>10.3</td>
</tr>
<tr>
<td>“None of the above” and parties below the 5% threshold</td>
<td>18.63</td>
<td>49.6</td>
</tr>
</tbody>
</table>

\(^a\) On the logic of such bloomings of executive power, see Moe and Caldwell (1994).
Duma that convened in 1994, party leaders took the initiative in writing the internal rules of order within the parliament, which have survived to this day. Because of the mixed electoral system, more than half of the Duma deputies had a party affiliation, so leaders moved quickly to establish the primacy of party power (Haspel, Remington, & Smith, 1998). The new parliament voted to give the status of faction to all parties that had received more than 5% of the popular vote on the party-list ballot. Independent deputies (or deputies elected on party lists who then opted to quit their parties) had to collect 35 members to form a new faction. The allocation of committee chairs was also done proportionally between party factions, and the Council of the Duma was established to organize the agenda of the parliament (Remington & Smith, 1998). The new Duma also approved a rule that gave parties control over speaking privileges on the floor. Finally, party leaders passed a resolution that gave parties the power to allocate staff to individual faction members. These new rules quickly established parties and party leaders as the preeminent actors in the Duma and created real incentives for nonpartisan Duma deputies to align with a faction. In the 1990s, internal cohesion made the Duma a more formidable opponent for the president (Sitnikov, 1999).

This core group of well-established parliamentary parties, however, has not dominated parliamentary elections and has not enjoyed monopolistic control over the internal affairs of the Duma, as do many party systems in consolidated democracies. The results of the 1999 parliamentary vote suggest that the party dominance over parliamentary elections and parliamentary representation may be declining, not increasing.

Most striking, two new electoral coalitions competing on the party-list ballot succeeded in capturing a significant portion of popular vote—Fatherland–All Russia and Unity. These two election blocs shared many similar qualities with each other but have little in common with the four parties previously mentioned. In contrast to the four parliamentary parties discussed earlier, these two organizations are better understood as presidential coalitions.

First, neither Fatherland nor Unity participated in the 1995 parliamentary election. For the leaders of these coalitions, the 2000 presidential race was the focus of attention from the very beginning. Moscow mayor Yuri Luzhkov created Fatherland to promote his presidential aspirations, whereas Primakov joined Fatherland–All Russia to advance his presidential prospects. On behalf of Putin, the Kremlin created Unity to weaken Luzhkov and Primakov as presidential candidates and strengthen Putin’s prospects (Colton & McFaul, 2000). Immediately after Putin’s victory, the Fatherland–All Russia coalition collapsed. A year later, Fatherland leaders pledged to integrate their organization into the new party of power, Unity.
Second, both Fatherland and Unity had very poorly defined identities within the electorate in the 1999 parliamentary election. Focus groups commissioned by the author in Moscow (where the most sophisticated voters in Russia are located) revealed that just 7 days before Election Day, voters did not understand what either coalition stood for or represented. Fatherland–All Russia’s program contained many contradictions (Makarenko, 1999). Unity’s program was even more mysterious.

Third, almost by definition, these new political organizations had new electorates, that is, people without a tradition of voting for these two parties. Fatherland–All Russia did enjoy the support of loyal followers in cities and regions governed by their leaders, but this was only a handful of places. Not surprising, therefore, and in contrast to stable levels of support expressed throughout the fall for the four parliamentary parties previously mentioned, popular support for these two presidential coalitions varied considerably throughout the 1999 parliamentary campaign period. Fatherland took a nose dive, whereas Unity enjoyed a radical climb in the polls.

Finally, although the four parliamentary parties did not have serious presidential contenders within their ranks, both of these presidential coalitions boasted one or two serious candidates before the parliamentary campaign began—Primakov and Luzhkov from Fatherland–All Russia and Putin (Unity’s surrogate leader) from Unity. After this parliamentary campaign—which served as a presidential primary for these two presidential coalitions—both Primakov and Luzhkov accepted their defeat and withdrew from the presidential race.

Although concerned primarily with influencing the presidential election, these two new electoral coalitions together captured more than a third of the popular vote on the party list in the December 1999 election. Their participation on the party-list ballot impeded the expansion of support for Russia’s more established parties.

Elections in the single-mandate districts (SMDs). If Russia’s established, ideologically based parties did not manage to expand their success on the party list in 1999, they suffered serious setbacks in producing winners in SMDs, which constitute the other half of the Duma. Nonpartisan candidates assumed a much more prominent role in the 1999 vote than in 1995, and nonpartisan actors—including first and foremost regional elites—played a much more active role in influencing the outcome of these elections than in previous years (McFaul, Petrov, & Ryabov, 1999). In the aggregate, as Table 2 shows, nonpartisans captured more SMD seats in 1999 than in 1995.

One pattern is especially striking: the declining role of the older parliamentary parties in determining electoral outcomes in SMD districts. The
CPRF won 11 fewer seats in 1999 than in 1995. Yabloko’s share of single-mandate seats decreased from 14 to 4, and two of these seats were won by candidates with only a loose affiliation with Yabloko: Sergei Stepashin, a former prime minister, and Mikhail Zadornov, a former finance minister. In 1995, Democratic Choice of Russia (DVR) captured less than 4% of the popular vote but won nine single-mandate races. In 1999, the Union of Right Forces more than doubled DVR’s party-list showing but managed to win only five single-mandate seats. Zhirinovsky’s party won no single-mandate seats. Even the two new presidential coalitions did not dominate the single-mandate races. Unity won only nine seats. Fatherland–All Russia did win 31 seats, but the vast majority of these came from regions dominated by regional executives associated with this coalition. In other words, local parties of power, rather than a national party affiliation, delivered the wins.

### REGIONAL HEADS OF ADMINISTRATION (PRESIDENTS AND GOVERNORS) AND REGIONAL LEGISLATORS

Finally, Russian political parties play a very limited role in regional politics. In some major metropolitan areas, such as St. Petersburg and Ekaterinburg, multiparty systems are beginning to take root, but in most
regions, a state-based informal network dominated by the local ruling elite—called in Russia the “party of power”—still dominates politics.

Few executive leaders at the oblast, krai, and republic level have open-party affiliations. During the cascade of elections of regional executives in the fall of 1996 and spring of 1997, political parties played only a marginal role in selecting and endorsing candidates (McFaul & Petrov, 1997). The CPRF, through its affiliate the National Patriotic Union of Russia (NPSR), was the only party that had any real influence on these elections as a political party. And even the CPRF was usually chasing candidates to endorse rather than selecting candidates to run. At the beginning of the electoral cycle, the NPSR had endorsed only 12 candidates (Vladimir Akimov, CPRF campaign advisor, personal communication, September 16, 1996). By the end of this cycle, the CPRF claimed to have won as many governorships as the NPSR had endorsed, but even many of these so-called red governors soon distanced themselves from the party leadership after election victory.

The Kremlin backed candidates and funded campaigns but not through party organizations. Other parties, including regional parties and coalitions, figured only in individual races. Zhirinovsky’s LDPR ran candidates in several races but won only one, in Pskov. Governor Mikhailov in Pskov may be the only candidate who won due to party affiliation. Yabloko endorsements played an important role in some races, especially in St. Petersburg, but Yabloko party members did not win a single race. Only one candidate with open ties to DVR (Semen Zubakin in the Altai Republic) succeeded in winning a governor’s race.

Local parties of power with no ideological affiliation and with strong ties to local executive heads also dominate most regional legislatures. In her careful study of party representation in regional legislatures, Stoner-Weiss (2000) reports that only 11.5% of all deputies in regional parliaments have national party affiliations, including 7.3% from the CPRF, but less than 1% for any of the three other parliamentary parties previously mentioned (Stoner-Weiss, 2000). Obviously, party development in the national legislature has not stimulated a commensurate growth of party influence in regional legislatures.

THE IMPORTANCE OF INSTITUTIONS

The causes of party weakness in Russia are many and diverse. The Soviet legacy matters. Seventy years of Communist Party rule created a strong negative reaction within Russian society for party politics. Because Soviet society was hyperorganized and “overpartyized,” post-Soviet Russian leaders and
citizens have had an allergic reaction to parties. After quitting the party in 1990, Yeltsin vowed never to join another party again, and many in Russia sympathize with his decision. Whereas other East European countries were able to revive old parties from the precommunist past, Russia had only a splash of experience with competitive party politics before the Bolshevik revolution, so there was no party culture to resurrect. The Soviet system did produce large quantities of social and organizational capital, which continue to form the basis of the largest organizations in the postcommunist era, including first and foremost the CPRF. Yet this inheritance may serve more as a barrier to the growth of grassroots party development and less as a base from which to develop new party organizations. After all, these organizations served to control people, atomize society, and discourage participation in real politics (Roeder, 1989).

The scale of socioeconomic transformation in Russia also has impeded party development. Socioeconomic cleavages were important for party development in Western Europe (Lipset & Rokkan, 1967). In Russia, these cleavages are still ill defined. If transitions to democracies in capitalist countries involve changing primarily the political system, successful postcommunist transformations destroy old classes, create new interest groups, and confuse, at least temporarily, almost everyone living through the transition. The slow development of capitalism in Russia suggests that we should expect a similarly slow formation of market-based interest groups.5 The slow emergence of civil society severely limits the organizational, financial, and ideological resources necessary for party development. Russian parties, in turn, have had difficulty situating themselves on programmatic or interest-based dimensions.6 For instance, Russia has weak liberal parties because Russia has a small and ill-defined middle class. Under these circumstances, interest cleavages in the 1990s have been fashioned more by general attitudes about the transition than by particular economic or even ethnic concerns (Whitefield & Evans, 1998). In Russia between 1990 and 1997, political situations and electoral choices were often polarized into two camps, those for change and those against it (McFaul, 1997). More conventional cleavages

5. Moreover as in all capitalist societies, small groups with well-defined interests (such as Russia’s financial oligarchs) are more likely to solve collective action problems more efficiently and faster than mass-based groups such as the small business associations or trade unions, which are more likely to articulate their interests through parties. See Moe (1980).
6. This is the tabula rasa school. For a discussion of this literature, see Kitschelt, Mansfeldova, Markowski, and Toka (1999). Almost a decade after the collapse of communism, however, one would think that the contours of a postcommunist society would have begun to form by now.
that demarcate the contours of stable party systems in other countries may perhaps emerge only now that this polarization has begun to recede.

These structural approaches offer important insights about party weakness in Russia. But the long shadow of an authoritarian past and an unstructured post-Soviet society cannot be blamed entirely for the lack of party development in Russia today. These same factors also cannot be cited to explain party emergence. The role of parties in government differs from institution to institution, suggesting that more proximate variables are intervening to cause this variation. Institutions and individual choices in designing institutions must also be brought into the analysis (Moser, 1995; Remington & Smith, 1995; Sartori, 1994; Shugart & Carey, 1992). Specifically, Russian political elites made choices about the timing of elections, the kinds of electoral systems, the relationship between the president and parliament at the federal level, and the relationship among the heads of administration of local legislatures at the regional level, all of which have impeded party development. But elites also made a few choices about institutional design, including first and foremost the incorporation of proportional representation in the parliamentary electoral law, which have stimulated the emergence and development of political parties.

As a complement to structural or organic models of party development that correctly highlight the reasons for the lack of party development in Russia, this article argues that individual politicians and interest groups can manufacture the emergence of parties. Structural, cultural, or legacy factors cannot explain the emergence of the parliamentary parties previously described. And they cannot account for the variation of party strength within different Russian state institutions, because the causal arrow of all of these structural theories points toward weak or no party development. Yet, as documented above, the core of a multiparty system in Russia has emerged within the Russian parliament. Over time, these parties may wither and die, but even if they do fade from Russian politics as important forces, their short-lived emergence must still be explained.

A comprehensive explanation for party development in Russia must be able to account for the weak party penetration of most state institutions as well as the relatively strong degree of party development with the Duma. The seeds of a multiparty system and the barren environment surrounding these seeds demand explanation. To account for both the emergence and the lack of a party system, individual actors, their preferences, their power, and their

7. More generally, modernization theories are never very good at accounting for short-term variation. Instead these kinds of theories are better at identifying long-term trends and trajectories.
decisions (especially their decisions about institutions) must also be brought into the equation. In particular, the kind of electoral laws and the kind of rule governing executive-legislative relations chosen during the construction of Russia’s new political system have had a direct impact on party development in one arena as well as on the lack of party developments in other arenas. After first demonstrating the causal relationship between these institutional choices and party development, the final section of the article then explains how and why these institutional arrangements came into being in the first place.

**PROPORTIONAL REPRESENTATION IN THE DUMA: LIFELINE FOR PARTY DEVELOPMENT**

As predicted by party analysts and promoted by party advocates, proportional representation as a component of Russia’s electoral law to the Duma has stimulated the emergence and consolidation of four proto-parties in Russia: the CPRF, Yabloko, the LDPR, and the Union of Right Forces (Fish, 1995b). The fact that 50% of all Duma deputies must acquire their seats through proportional representation in a national election has allowed these four parties to organize and survive. This particular percentage has also been critical to giving these parties the power to organize the internal rules of the Duma. If it were less than 50%, as many have advocated, then the Duma might not privilege parties, but instead might gravitate to a more committee-dominated form of internal organization.

Without proportional representation, three of these four parties (Yabloko, Union of Right Forces, and the LDPR) most likely would not exist today. Yabloko and the LDPR got their jump starts as national organizations from the proportional representation ballot in the 1993 parliamentary elections. In the last three parliamentary votes, the LDPR has won 126 seats through the party list but only six single-mandate seats. Yabloko has won 67 seats on the party list in these three votes but only 25 single-mandate seats. As the party of power in 1993, Russia’s Choice—the predecessor organization to the Union of Right Forces—won almost as many seats from single-mandate victories as they did from proportional representation in the 1993 election. In 1995, DVR (the liberal core that remained after Russia’s Choice disintegrated) won no seats from proportional representation but did win nine single-mandate seats. In 1999, however, the Union of Right Forces benefited greatly from proportional representation, winning 24 seats from the party list vote compared with only five seats in single-mandate races. Only the CPRF, the one party with an organizational inheritance from the Soviet period, could survive without proportional representation.
If proportional representation has been the lifesaver that has kept parties afloat, it was tossed to them after years of splashing in the ocean alone. Generally, parties assume center stage in transitions at the moment of first or founding elections (O’Donnell & Schmitter, 1986). In the Soviet-Russian transition, however, parties organized only after the first two national elections to the Soviet Congress of People’s Deputies in 1989 and the Russian Congress of People’s Deputies in 1990. As discussed earlier, parties played a very marginal role in the June 1991 presidential elections. During this period of struggle against the Soviet system, Russian democrats placed a premium on preserving a united anticommunist front. Proto-parties formed, but they remained under the umbrella of Democratic Russia, biding their time until the moment for multiparty politics was ripe. In the opinion of party leaders, this moment came in the fall of 1991. After the failed putsch attempt in August 1991 and the dissolution of the Soviet Union a few months later, party organizers believed that Russia needed to convene its first postcommunist election—a “founding election”—right away. Yeltsin, however, disagreed. Only 2 years after the dissolution of the Soviet Union did Russia finally have its first multiparty election.

Had Yeltsin convened elections soon after the collapse of the Soviet Union, Russia’s political parties might have been able to step in and provide voters with programmatic choices. With the right electoral law, they might even have succeeded in monopolizing the process of selecting candidates. At the time, the entire range of European-style parties existed, including Liberal, Christian Democratic, Social Democratic, and Communist parties (Fish, 1995a). Yeltsin’s decision to veto the idea of holding such a founding election left these new political parties to wallow for the next 2 years with no political role in the polity. When the next election occurred in December 1993, most parties created during the heyday of democratic mobilization in 1990 and 1991 had disappeared. Liberal parties were especially hurt by the postponement of new elections, as many voters associated the painful economic decline from 1991 to 1993 with the leaders and policies of these Liberal parties (Colton & Hough, 1998). Yeltsin also sequenced elections so that parliamentary and presidential votes did not occur simultaneously, a decision that further hampered party development (Shugart & Carey, 1992). Despite these other timing and sequencing decisions that impede party emergence, the incorporation of proportional representation into the 1993, 1995, and 1999 electoral system for the State Duma has helped to stimulate

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8. In 1989, all parties except the Communist Party of the Soviet Union were illegal. In February 1990, Article Six of the Soviet Constitution was amended to allow for other parties to organize, but this amendment came too late to allow parties to participate in any substantial way in the spring of 1990 elections.
party emergence in Russia. The importance of electoral rules for party development is especially apparent when national and regional parliaments in Russia are compared. Only a small handful of regional legislatures have mixed electoral systems, whereas the overwhelming majority use only single-mandate systems. Stoner-Weiss (2000) reports that the five regions that do incorporate some degree of proportional representation did show a higher degree of party penetration than the national average. For party advocates, proportional representation does appear to be their best tool.

**STRONG EXECUTIVES + WEAK PARLIAMENTS = A WEAK PARTY SYSTEM**

After the inclusion of proportional representation in the Duma electoral law, the next most important design decision of consequence for party development concerned the presidential system. Around the world, presidential systems are less conducive to party development than are parliamentary systems (Linz, 1994). The same has been true in Russia (Moser, 1998). This institutional constraint has been especially pronounced in Russia, as parties do not control the formation of government or even structure the presidential vote. This institutional arrangement resembles what O’Donnell (1994) has called a *delegative democracy*. In delegative democracies, “whoever wins election to the presidency is thereby entitled to govern as he or she sees fit, constrained only by the hard facts of existing power relations and by a constitutionally limited term of office” (O’Donnell, 1994, p. 59). Organizations such as parties that mediate interests between state and society or constrain the freedom of action for the chief executive are not needed in delegative democracies. The one arena of state power that parties do dominate—the State Duma—is also one of the least effective institutions in the system. Empirical research on the actual exercise of presidential power in postcommunist Russia suggests that the Kremlin occupant may not be as omnipotent as is commonly perceived, whereas the Duma has grown stronger over time (Remington, Smith, & Haspel, 1998). But the center of power is still firmly ensconced in the Kremlin. A similar distribution of power between executives and legislatures exists at the regional level.

The presence of a presidential system, however, is not a sufficient condition to explain weak party development in Russia. After all, many established democracies with strong presidents also have robust party systems. The salience of this institutional dimension becomes apparent only when com-

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9. Although comparison of national and regional votes must take into account several important differences, this comparison has the advantage of keeping structural variables relatively constant, allowing the causal influence of the electoral system to be isolated.
bined with the mixed electoral system of the State Duma. Russia’s current electoral law for the Duma has stimulated the emergence of a multiparty system. However, it is a system in which no single party has garnered more than a quarter of the vote in any parliamentary election. Leaders of these parties can hope to take advantage of the runoff system in the presidential vote as a way to reach beyond their party’s electoral base. Such coalitions are difficult to pull together due to interparty rivalries. It is also a risky strategy because the party candidate has to rely on the endorsement of other parties and the support of their electorates in a second round of voting, which occurs only 2 weeks after the first vote. To date, only one party candidate, Zyuganov, has advanced to the second round, and even he considered it necessary to downplay his Communist Party affiliation and hide behind a presidential “coalition” of 100 organizations—the NPSR—during his presidential bid in 1996. To piece together a majority in 1996, Yeltsin decided not to affiliate with any single party in the December 1995 parliamentary vote. This strategic move then allowed him to act as a focal point for a large nonpartisan, anticommunist coalition. Prime Minister Putin used the same strategy. He endorsed not one but two parties in the 1999 parliamentary vote—Unity and the Union of Right Forces. After this election, he then called on all “reform” and “centrist” organizations to join his presidential coalition. Affiliating with a party too closely during the parliamentary vote or sooner would have limited his chances in the general election. Only if and when two political parties dominate all others will candidates seeking executive office have an incentive to seek a party affiliation. Mixed electoral systems for parliaments (which encourage several parties with a minority share of the electorate) and runoff majoritarian systems for presidents (which require successful candidates to win 50% of the electorate) do not mix well.

10. Imagine how the dynamics of campaigns in presidential primaries in the United States would change if the general election took place only 2 weeks after the conclusion of the primary vote. Prospective candidates in both parties would have to run more centrist campaigns in the primaries and at the same time have to be more cordial to their opponents in the primary, because these opponents would be crucial to remobilizing support for the party’s winning candidate in the final election held just 2 weeks later.

11. The miscalculations of former Prime Minister Yavgeny Primakov are instructive in highlighting this point. In the fall of 1999, Primakov decided to compete in the parliamentary election as head of Fatherland—All Russia as a means of jump-starting his presidential campaign. By joining one party, however, Primakov alienated his supporters in other parties, including first and foremost the Communist Party. Even if Fatherland—All Russia had placed better than third in the parliamentary vote, Primakov would have had to seek support from other parties to reach the majority necessary to win in the presidential vote. On the other hand, had Primakov not identified with any political party in the parliamentary vote, he could have more easily sought the endorsement of all opposition parties as a “coalition” consensus candidate.
EXPLAINING INSTITUTIONAL DESIGN:
POWER AND CHANCE

In the previous section, I attempted to show the causal relationship between institutions and party development. In pushing the causal chain one step further back, the next question is why did Russian political leaders select this set of institutions in the first place? This question is especially puzzling given the rather inchoate mix of institutions chosen (Ordeshook, 1995).

In tracing the decision-making process that produced this set of institutions shaping party development in Russia, the first argument is that actors design institutions that serve their interests (Ordeshook, 1990; Shepsle, 1986). Overtime, institutions can develop an independent role or have autonomous intervening influence on social outcomes (March & Olsen, 1989). Some institutions may even become so powerful that they dominate the construction of the preferences, choices, and capabilities of individuals. During periods of rapid and momentous change when old institutions are collapsing and new institutions are forming, however, it seems unreasonable to assign institutions such an independent causal role. Rather, autonomous actors—driven by preferences and armed with power—must be brought into the equation. Institutions are endogenous to the political process itself, reflecting the preferences of those affected by the design. Under certain circumstances, actors can cooperate and coordinate their behavior to produce institutions that offer everyone an improvement over the status quo. However, in the design of new political institutions, zero-sum distributional questions are more prevalent. In these situations, the new institutional arrangement more often reflects the preferences of the more powerful or more successful actors in the game of institutional design (Knight, 1992; Krasner, 1991; Tsebelis, 1990). When actors design new political institutions, they rarely act for the good of society and usually work for the good of themselves (Hardin, 1989). This means that they will design institutions that promote party development only if they see party growth to be in their interest. To date, most in Russia have not.

A second argument, however, is that institutional designers seeking to maximize their self-interest also make mistakes. Especially during periods of rapid revolutionary change when uncertainty clouds means-ends calculations, we should expect actors to make choices about institutions that may have unintended consequences. And once in place, institutions—even accidental institutions—can begin to reform and reshape preferences and power in ways that can sustain them by offering increasing returns to those who abide by them (Arthur, 1994; Pierson, 2000). This set of simple arguments
provides an analytic framework to explain the emergence of institutions in Russia that have both impeded and stimulated party development.

THE POLITICS THAT PRODUCED PRESIDENTIALISM

Decisions of self-interest made in an uncertain context produced Russia’s presidential system. These choices initially had little or nothing to do with concerns about party development. Rather, they were about obtaining and then consolidating political power through a process that did not need strong parties. Once in place, Russia’s presidential system has provided aspirants to the office a path to power that does not require a party affiliation.

Concentrated power in the hands of the president is not the result of Russian history or culture. Rather, Russia’s strong presidential system emerged directly from the transition process. In contrast to many other presidential systems in the postcommunist world, the old communist elite in Russia did not create the Russian presidency (Easter, 1997). On the contrary, the creation of the presidential office was a strategy adopted to insulate the anticommunist movement from the power of the old elite.

Anticommunist forces in the Russian Congress of People’s Deputies first floated the idea to create a presidential office in the spring of 1990. As a minority in this parliament, Russia’s “Democrats” reasoned that their leader, Boris Yeltsin, would have more power as a directly elected executive than as a chairman of a parliament in which his support was thin and waning. Yeltsin and his allies saw the creation of a Russian presidential office as a way to insulate Yeltsin from the increasingly conservative Congress. Polls indicated that Yeltsin was much more popular with the people than with the deputies. Yeltsin therefore succeeded in putting a question about the Russian presidency on the March 1991 referendum. The referendum passed overwhelmingly. It is not surprising that 3 months later, Yeltsin won a decisive electoral victory to become Russia’s first president. He did not need a party affiliation to win this office because Yeltsin had cultivated an electoral base well before parties had come into existence.

At the time of his electoral victory, Yeltsin had captured an office with ill-defined powers. After the June 1991 presidential vote, the increasingly anti-Yeltsin Russian Congress had 6 months to clarify and codify the constitutional division of powers between the president and the parliament. The Congress planned to limit the powers of the presidency and keep all significant powers with the legislature. Before they codified these preferences into law, however, Soviet hard-liners attempted a coup and failed in August 1991, just months after Yeltsin’s electoral victory. In the interim period between the
failed coup attempt and the dissolution of the Soviet Union in December 1991, President Yeltsin played the pivotal role, and his presidential office—not the Russian Congress of People’s Deputies—assumed primary responsibility for all major institutional innovations and policy initiatives. The institution of the presidency began building organizational capacity and power to deal with these crises, and it encompassed a shift in resources that included new staff, new bureaucracies, and greater executive control over the state budget.

Initially, this de facto expansion of presidential purview met with little resistance. In fact, the Russian Congress voted in November 1991 to give the president extraordinary powers of decree. This honeymoon period ended, however, soon after the beginning of radical economic reform in January 1992. The Congress and the president began to debate which political institution was supreme, the Congress or the presidency. In October 1993, this stalemate eventually produced armed conflict between the two branches of government. Yeltsin won this violent confrontation and then took advantage of his victory to write a new superpresidential constitution. In December 1993, voters ratified Yeltsin’s rules as the new constitution of Russia.

The impulse for presidentialism came from Yeltsin and his desire to stay in power in the spring of 1991. Yeltsin’s military victory in October 1993 against the Russian Congress allowed him to write the new political rules of the game as he desired. This institutional design in turn has impeded party emergence in Russia. Powerful actors making choices about institutions—not history, culture, or socioeconomic structures—erected this barrier to party development.

Once in office, Yeltsin then used the largess of the state and the alliance between the state and Russia’s financial oligarchs as the resources for his reelection campaign in 1996. Alone these resources were not sufficient to win reelection (on other factors, see McFaul, 1997). Yet they were more than enough to compensate for the lack of a party affiliation. As long as the state continues to enjoy an enormous resource advantage over other nonstate actors in the economy and society, control of the state will be the best strategy for winning the presidential election. On December 31, 1999, Prime Minister Putin won the game of musical chairs by being the lucky person in the prime minister’s chair on the day of Yeltsin’s resignation. The office of acting president endowed Putin with resources that helped him win the presidential election in March 2000 (McFaul, 2000). He did not need a party affiliation to win.

With more space, a similar detailed story could be told about the emergence of powerful executives at the regional level. Most regional leaders

12. On the logic of such bloomings of executive power, see Moe and Caldwell (1994).
obtained executive power through presidential decree in the fall of 1991 when Yeltsin created the new position of Glava Administratsii (head of administration) at the oblast level. These “governors” replaced the chairman of the executive committee of the oblast soviet (izpolkom) as the new local executive, reporting directly to the national executive rather than to the oblast soviet. These governors then appointed new mayors and regional heads of administration in their oblasts, effectively creating a hierarchical system of executive authority from the president down to the local mayor. Elections for these heads of administration were scheduled for December 8, 1991. Yeltsin, however, decided to postpone them and instead unilaterally appointed executive authorities. Once in power, these regional executives then used the resources of the state, rather than the electoral resources of a political party, to seek election when elections for these posts finally did occur several years later. Similar to the national scene, close parasitic relations between the state and regional oligarchs sustain this nonpartisan model of electoral politics for governors and republican presidents (Golosov, 1997).

Securing support from the state-oligarch nexus at the regional level is also the most rational strategy for winning a single-mandate seat in a national parliamentary race. Especially because these elections do not include a runoff, the resources of the local party of power are sufficient to win the needed plurality for victory. Ironically, local elites have an interest in party proliferation because it helps lower the threshold for victory in the single-mandate races. If only two parties competed in these elections, an anti–party of power coalition might be able to consolidate. The presence of many candidates helps to impede such coordination.

PROPORTIONAL REPRESENTATION: ACCIDENT OF HISTORY

The origins of proportional representation have a different lineage than presidentialism. Political actors choose electoral laws that maximize their ability to succeed in the electoral process. The outcome of struggles over the design of electoral laws, therefore, should reflect the preferences of the powerful. But they do not always do so. Russia’s mixed electoral system resulted from the intervention of normatively motivated political entrepreneur and a means-ends miscalculation on the part of the Yeltsin administration, which then produced an institutional arrangement that survived beyond one electoral cycle. To be sure, this ideational intervention and mistake occurred in an arena of institutional design of least importance to Yeltsin and his team—the Duma. If the Duma had more powers, Yeltsin and his team might have deployed extraconstitutional means to correct the error. Over time,
however, this mistake has produced some unintended consequences—positive consequences—for party development.

The opportunities for ideas to matter, for political entrepreneurs to seize center stage, and for powerful interest groups to miscalculate are rare. They are most likely to occur precisely during periods of rapid institutional breakdown. In stable institutional settings in which individuals choose from the same menu of choices over multiple iterations, the particular causal role of unique individuals or ideas should indeed be minimal. The preferences and power of leaders in stable institutional settings should also be easier to identify and therefore behavior should be easier to predict or explain. In stable settings, the preferences and power of social groups should also be relatively fixed and thereby constraining to the leaders who represent these groups. In uncertain institutional settings, however, the causal role assigned to unique individuals and ideas should be greater (Goldstein & Keohane, 1993). As Weber (1978) argued, “Charismatic rulership in the typical sense...always results from unusual, especially political and economic situations. . . . It arises from collective excitement produced by extraordinary events and from surrender to heroism of any kind” (p. 1121). When institutions break down, individuals (and analysts of individuals) have less information about the consequences of their actions or the intentions of other actors. They must make decisions under conditions of uncertainty, which may produce unintended results. In volatile institutional settings, preferences and power of leaders become variables, not constants, especially when the collapse of previous institutions eliminates past preferences from the menu. An effective leader who proposes a new ideological or normative orientation for the state and society can fill the void. In these situations of institutional breakdown, we should assume that individuals have autonomy and the possibility to influence institutional change—at least in the short run.

Such was the case in the design of Russia’s electoral system for the Duma. On October 1, 1993, Yeltsin decreed a new set of rules for electing a new parliament. Yeltsin’s preferences, however, were not precisely reflected in this decree because Yeltsin did not have precise preferences regarding the Duma electoral rules. At this moment, Yeltsin was much more focused on the Congress standoff, which ended 3 days later in violent conflict, and his new constitution. In the midst of a constitutional crisis swiftly devolving into civil war, Yeltsin had little time or proclivity to ponder the electoral effects of proportional representation versus first-past-the-post systems (Sergei Filatov, Yeltsin’s former chief of staff, personal communication, March 25, 1998).

Instead, those involved in earlier debates about the electoral law played a central role in writing this crucial set of rules, including first and foremost People’s Deputy Viktor Sheinis. Unlike most of those who had worked on the
new electoral law before the shelling of the Congress of People’s deputies, Sheinis had a normative commitment to multiparty democracy. He believed that proportional representation could be deployed to help stimulate the emergence of a multiparty system in Russia and that it would help consolidate Russian democracy (Sheinis, personal communication, May 12, 1995).

Sheinis took advantage of the chaos of the moment in September and October 1993, as well as of the ignorance of his colleagues regarding the institutional effects of electoral laws, to guide the crafting of a presidential decree that allocated 50% of all seats in the Duma through proportional representation. Sheinis succeeded in securing this decree over the advice of several key Yeltsin advisors, who supported a majoritarian system. Publicly, these aides argued that direct elections of individuals allowed for greater accountability of deputies. Privately, these same people believed that a parliament composed of deputies from SMDs would be more supportive of the president and thus easier to control (Giorgii Satarov, former presidential advisor, personal communication, August 22, 1995).

Days before the signing of the decree, Yeltsin’s staff had managed to reduce the number of proportional representation seats to one third of the total Duma. However, in a last-minute meeting with Yeltsin, Sheinis and his colleagues Sergei Alekseev and Sergei Kovalev succeeded in increasing the number of proportional representation seats to 50%. In his meeting with Yeltsin, Sheinis first explained the merits of the mixed system on ideological grounds, claiming that a mixed system would stimulate party development and thereby promote democratic consolidation.

When this argument failed to resonate with Yeltsin, Sheinis posited that the pro-Yeltsin electoral bloc, Russia’s Choice, would be the biggest beneficiary of this electoral system. Yeltsin was swayed and approved of the mixed formula (Sheinis, personal communication, October 10, 1997). Like most analysts at the time, Sheinis and probably Yeltsin assumed that Russia’s Choice and the other reformist parties running in the election would win a majority or a solid minority of the popular vote. Given their lack of reach in the regions, however, Russia’s Choice would not win many single-mandate seats.

The mixed electoral system did not produce the anticipated results. Zhirinovsky’s neonationalist LDPR won 23% of the popular vote on the proportional representation ballot, whereas Russia’s Choice won 15%, less than half of what was expected. The other “Democratic” parties all together won less than 10% of the popular vote. The Russian Communist Party and their rural comrades, the agrarians, combined for almost 20% of the vote. As expected, the proportional representation vote had stimulated the formation of a party system at the national level in Russia, but from the perspective of the drafters, it had stimulated the development of the wrong kind of parties.
Shocked by this electoral result, the presidential administration tried to amend the electoral system during the 2 years before the next parliamentary vote in December 1995. The president and his team wanted to eliminate proportional representation altogether and use majoritarian rules to reshape Russia’s political landscape into a two-party system. After several attempts, their efforts failed. The majority in the Duma voted in favor of the existing mixed system because 50% of those Duma deputies owed their seats to proportional representation. In addition, more than 70 deputies who won Duma seats through SMDs were members of those parties that won seats through the proportional representation ballot, meaning that a solid majority supported the 50-50 formula. This support cut across ideological lines as liberal, nationalist, and communist parties all supported the status quo formulation. In other words, the new electoral system from 1993 had reorganized political forces to create a new majority in favor of the status quo. The Kremlin continued its campaign to reduce proportional representation after the 1995 parliamentary election but did not succeed in changing the law before the 1999 parliamentary vote.

Russia’s electoral decree for electing Duma deputies did not precisely reflect the preferences of the most powerful actors in the Russian polity at the time. Rather, the decree initially reflected the ideas of Sheinis and his associates, who had very little political or economic power. He and his allies took advantage of an uncertain context to sneak into existence a rule change that had significant and lasting positive consequences for party development in Russia. The rule change also benefited Sheinis’s new political affiliation, Yabloko, which formed soon thereafter to compete in the December 1993 elections. Once the powerful realized what had occurred as a result of Sheinis’s intervention, they tried to change this electoral system. But the design itself helped to create a new coalition of actors in favor of the new institutional design that sustained the system through the 1995 and 1999 parliamentary elections.

THE FUTURE OF PARTIES IN RUSSIA

The current state of party development in Russia is not an equilibrium. The institutional tensions in the present system create strange incentives and ambiguous signals for political actors. In particular, the mixed electoral system for the parliament does not reflect the interests of the most powerful political actors in the polity. In the long term, two paths to a more stable outcome seem available: (a) liquidate the presidency and develop a multiparty
parliamentary system or (b) liquidate proportional representation in the Duma as the first step toward developing a two-party presidential system.

The first path would be another engineered solution to address party weakness in Russia. It is not surprising that the same people who drafted the original mixed electoral system also advocate the weakening of presidential powers. These advocates of multiparty development still believe that proportional representation has given Russian parties a foothold within the national legislature. From this base, these parties might then begin to influence other electoral situations, including the SMD seats in the Duma, the presidential campaign, regional legislatures, and eventually even regional executives.

The prospects for this trajectory are still alive, but they are not gaining momentum. The “old” parliamentary parties have not managed to expand beyond the Duma’s walls. On the contrary, the latest election cycle provides evidence that their influence in other electoral arenas and state institutions is decreasing. Constitutional amendments that limited the powers of the president constitute the one institutional change that could stimulate party power by design from above. Although a glimmer of hope for such an institutional change appeared after the August 1998 financial crash, such amendments seem very unlikely, especially after Putin’s electoral victory.

More likely is the elimination of proportional representation and a weakening of political parties, at least in the short run. The results of the 1999 parliamentary elections unexpectedly undermined the majority coalition in favor of proportional representation and the status quo rules more generally. Unity, the virtual party that captured almost one quarter of the popular vote on the party list in the 1999 vote, has promised to eliminate proportional representation as a component of Russia’s parliamentary election law (Edinstvo, 1999). Before the 1999 vote, pro-party deputies always had a solid majority within the Duma, because parties won all of the party-list seats and added more to their ranks by winning some single-mandate seats. In other words, the innovation in the electoral system first introduced in 1993 initially had little to do with the preferences of the powerful and occurred primarily due to chance in the uncertain and chaotic context of the fall of 1993 crisis. Once in place, however, the rule change seemed to manufacture a coalition in favor of perpetuating these rules, even if other important actors in the Russian polity, including first and foremost the powerful president, did not support the mixed electoral system. These rules in turn allowed for proto-parties to sprout even if they were not firmly rooted in socioeconomic cleavage structures of Russian society. The results of the 1999 election have threatened to undermine this equilibrium. For the first time, an electoral bloc that rejected proportional representation won seats through proportional representation. It
is not surprising that this party—Unity—was created by the presidential administration. If Russia’s electoral law were eventually amended to eliminate proportional representation altogether, then Russian party development—especially liberal party development—would suffer a serious setback.

If proportional representation is eventually written out of the Russian parliamentary election law, we should witness the emergence of a two-party system (Duverger, 1954). But the trajectory for growth will be a lot slower and will produce less disciplined parties more akin to U.S. parties than European parties. Periodically, as we witnessed in the run up to the 2000 presidential elections as well as in several key gubernatorial races, ad hoc coalitions or parties will continue to form as a strategy for securing the necessary 50% plus one to win in these majoritarian elections. At some point in time, these coalitions may begin to stick and survive beyond the election immediately in question. In some gubernatorial races, regional parties have outlived the election cycle for which they were created. To date, however, these regional organizations have not linked up to national party structures and have yet to survive beyond the political fortunes of the individual leaders who founded them.

If national coalitions built from below by linking regional parties together do not occur quickly, the end result of liquidating proportional representation could still be the emergence of a two-party system—the right-of-center Unity (with Fatherland now in alliance) and the left-of-center Communist Party. If the liberal parties Union of Right Forces and Yabloko eventually unite, they might also survive to capture a small number of seats in large urban centers. However given the Communist Party’s failure to secure 50% in a national vote during the past decade—a decade in which the economic conditions were ripe for Communist Party renewal—such an innovation might also produce a hegemonic one-party system. Minor parties might continue to exist, but one party—the party of power—would dominate all electoral processes of consequence. In the 2000 presidential race, Putin won the largest percentage in 84 of Russia’s 89 regions. If recast as a parliamentary vote, the March 2000 election results would have given Putin’s party a slight majority under proportional representation but 94% of all seats in a first-past-the-post system. After a decade of weakly institutionalized multiparty politics, Russia could be heading backward again toward one-party rule.

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Whereas most scholars approach precedent as an issue of compliance, the author argues that judges rely on precedent because of its utility in cutting information costs, decreasing uncertainty, and providing justification. This article explores the utility that foreign precedent had for high court judges in South Africa and Canada in the periods directly following the adoption of new constitutional protections for civil liberties. The analysis reveals that judges in these countries made significant use of both foreign and domestic precedent when dealing with new and/or highly contentious issues and that reliance on foreign precedent declined over time as judges developed an increasing number of indigenous precedents. This consideration of foreign precedent suggests that judges can be important contributors to the process of globalization in the area of human rights law.

A TOOL, NOT A MASTER
The Use of Foreign Case Law in Canada and South Africa

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In common law countries, judges commonly follow the norm of stare decisis. Rather than approaching each issue “from scratch,” judges tend to rely on precedent, the decisions handed down either by past judges or by their judicial superiors. But what happens if there is no precedent to follow? Cardozo (1921) suggests it is “when the reference in the index fails, when there is no decisive precedent, that the serious business of judging begins” (p. 21). Judges confronted with new situations typically reason by analogy to extrapolate the appropriate course from existing principles of law, custom, and “social utility.” These forces allow the judge to fashion the law from workable principles that will be tested over time by their application to real controversies. The more novel the question faced, the more resourceful the judge will have to be.

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Judges in Canada and South Africa have had to be particularly resourceful in recent years. Both of these countries recently adopted new constitutional provisions that included broadly phrased civil rights and liberties provisions. These changes were significant for judges because they introduced a number of contentious issues to courts for the first time and because neither country had previously allowed courts to enforce constitutionally entrenched civil liberties through the power of judicial review. The persuasive burden for judges became more daunting, given that neither country’s history provided a sufficient stock of domestic precedent to guide their constitutional decision making. In this article, I argue that Canadian and South African judges have responded to this challenge by making extensive use of precedent from other countries. Whereas neither Canadian nor South African judges have treated foreign precedent as authoritative, they have given extensive consideration to the reasoning of foreign judges while developing their own civil rights case law.

THE STARE DECISIS DEBATE

Most scholars approach precedent as an aspect of legal authority. Lower court judges are described as complying with or evading the decisions of higher courts (see, e.g., Pacelle & Baum, 1992). Judges may comply because their legal training tells them this is the right thing to do or because they want to avoid being reversed on appeal. Either way, the issue is approached as one of acceptance or avoidance of a superior’s command.

The issue of reliance on precedent by supreme court justices is somewhat muddier. As Bale (1978) notes,

Stare decisis, for at least the highest court in a jurisdiction, must clearly be, in the absence of a statute, a self-imposed limitation which the court can modify if it chooses, because of its inherent power to regulate its own practice. (p. 338)

Although high courts are technically free to depart from past decisions, public and professional expectations may nevertheless encourage high court justices to follow the decisions of their predecessors.¹

In the recent debate over the U.S. Supreme Court’s use of precedent,² scholars disagreed over the extent to which U.S. justices actually comply

¹. For example, Knight and Epstein (1996) contend that U.S. justices follow precedent because others expect them to do so and because they fear that violating such expectations will endanger the Supreme Court’s legitimacy and policy-making capacity.
with the norm of stare decisis. Segal and Spaeth (1996) argue that the justices base their decisions on their policy preferences and merely make use of precedent to rationalize and legitimate their decisions. Others contend that the justices are constrained by precedent, either because they have internalized legal norms or because the legal community and other policy makers expect the justices to follow precedent. Although these approaches disagree as to precedent’s influence on judicial decision making, they all view reliance on precedent as a response to authority.

This overlooks another important reason for the use of precedent: its utility. Simply put, justices use precedent because it is extremely useful to do so. As lawyers, judges are trained to use precedent to demonstrate the strength of their argument. On the bench, judges rely on precedent to make their opinions more persuasive by providing justification for the adequacy of the decision. Precedent also serves the functions for judges that standard operating procedures do for other policy makers. In particular, precedent minimizes uncertainty for judges. It allows judges to avoid searching for new solutions for each new case. And if judges follow precedent, outsiders know what to expect from the courts. Precedent also allows judges to project possible responses to their decisions by considering earlier reactions to similar cases. Arguably, precedent’s power to reduce uncertainty is the reason that common law judges have continued to use precedent, despite the 1966 House of Lords declaration that judges could depart from it.

Thus stare decisis decreases uncertainty by cutting information costs and increasing the predictability of court decisions. This point becomes clearer when we consider how judges react when there is no clear precedent to govern their behavior. When existing decision routines provide insufficient guid-

3. For an extended discussion questioning the influence of precedent on judicial decision making, see Spaeth and Segal (1999).
4. Brenner and Stier (1996), Knight and Epstein (1996), and Songer and Lindquist (1996) all argue that precedent plays some role in constraining Supreme Court decision making.
5. For example, Shapiro (1965) argues that March’s final proposition, stressing the use of standard operating procedures and rules of thumb, which in the short run dominate the decisional process, is so strikingly applicable to the legal process that little comment is necessary. The terminology is slightly different in law. But legal doctrines or rules are precisely those standard operating procedures or rules of thumb by which judicial decision-makers dispose of most of the cases that come before them. (pp. 150-151)
6. In July 1966, the British Lord Chancellor issued a Practice Statement declaring that the Privy Council had decided to “modify their present practice and, while treating former decisions of this House as normally binding, to depart from a previous decision when it appears right to do so” (Bale, 1978, p. 337).
ance, judges borrow solutions from others rather than starting “from scratch.” This allows them to apply others’ experiences to problems they have not considered before and to project possible consequences for their actions. It also helps them justify the wisdom of their decisions to audiences who may be skeptical about newly crafted judicial dictates. Borrowing precedent from other courts is therefore particularly likely when a court has handed down few or no decisions on a question.8

Precedent from outside one’s chain of command is not normatively controlling. As such, judicial reliance on precedent from external jurisdictions reflects a need for useful models and persuasive ideas rather than a response to authority. In other words, judges rely on external jurisdictions not because they “have to” but because they find some utility in doing so.

It is difficult to disentangle the reasons for reliance on precedent within a national system because the laws may be quite similar across the states or provinces of a single country. However focusing on the use of foreign citations provides one good method of exploring the utilitarian use of precedent. Standard legal norms only require deference to domestic precedent. This reflects the view of law as an extension of sovereignty, with actors bound only by the rules of their own political jurisdiction. Lawyers and judges are not legally obligated to cite foreign decisions. What is more, they are not usually equipped to do so. Lawyers and judges are educated to apply and enforce their own society’s legal rules and norms, and they are accustomed to relying on domestic precedent to justify their decisions.9 This is particularly true of constitutional law, which is supposed to reflect a country’s core political values (Foltz, 1993). Because neither legal norms nor legal training encourage reliance on foreign jurisdictions, we may conclude that citation of nondomestic sources results from perceived utility rather than some coercive mechanism.10

7. This is true of all sorts of policy makers—when facing new problems, they tend to borrow from one another rather than formulating novel approaches. See, for example, Walker (1969), Gray (1973), Eyestone (1977), Menzel and Feller (1977), and Klingman (1980). With regard to judges, see, for example, Merryman (1954, 1977); Shapiro (1972); Friedman, Kagan, Cartwright, and Wheeler (1981); and Caldeira (1985, 1988).

8. On this point generally, see Harris (1985). Specifically with regard to the Canadian case, see Manfredi (1990) and Bushnell (1986).

9. Gessner (1998) notes, for example, that “in general, lawyers get little or no training in international or foreign aspects of law and are mostly unable to handle cross-border cases” (p. 437).

10. In countries with a strong sense of nationalism, there might be coercive pressure brought to bear against the use of foreign citations. The assumption of legal insularity will not hold for colonial possessions, whose judges are usually subordinate to the decisions of the colonial power’s courts.
CONSTITUTIONAL CHANGE LEADS TO CITATION OF FOREIGN SOURCES

We should expect citation of foreign precedent to be relatively rare under normal circumstances. However a major shift in the legal environment may disrupt standard citation practices. The introduction of new problems can significantly interfere with the use of traditional decision routines (Lindblom, 1959; Mohr, 1967). Faced with new problems, lawyers can be expected to draw on precedent from other jurisdictions to make the case for their clients. Faced with an insufficient supply of indigenous precedent, judges may use foreign decisions to increase the persuasiveness of their opinions. A number of studies suggest that reliance on external sources goes up when judges encounter new issues. For example, Walsh (1997) finds that citations increase when judges innovate, and Harris (1985) finds that intercircuit citation increases when judges hear disputes for which “internal” precedent provides little or no guidance. Thus we should expect reliance on foreign precedent to increase with the degree of novelty presented by an issue and to decrease as the issue becomes more familiar.

There may be no larger legal change than the adoption of a new constitution. Major constitutional transformations affect the basic structure of government itself. A change in the constitutional framework may have an impact on every policy adopted within its reach. As such, constitutional transformations present the greatest uncertainty to courts and have the greatest potential to encourage judges and litigants to rely on foreign sources. I therefore hypothesize that rates of foreign citation will increase following major constitutional changes but will decrease over time as judges craft new constitutional precedents of their own.

To test this idea, I explore the citations made by the highest courts of Canada and South Africa after significant constitutional change. Canada and South Africa share a number of important similarities that make them a useful pair for comparing the utility of foreign precedent. Both Canada and South Africa are common law countries in which judges are used to relying on precedent. Both are former British colonies whose legal systems bear the

11. In most countries, lawyers, litigants, and judges are accustomed to using domestic norms to resolve disputes, creating little need for reference to external sources under normal circumstances. Also note Glendon’s (1991) argument that the U.S. debate over rights, among both judges and the public, is characterized by “unapologetic insularity.” However some courts are more insular than others. Historically, Canadian and South African judges have been less insular in their citation habits than jurists in other countries, mainly due to the influence of English law (their colonial relationship with England left a mark on their legal doctrines). Even so, reliance on domestic norms far outshines reliance on foreign examples in both countries.
mark of British influence. In contrast to the insularity of most judges, Canadian and South African judges have regularly made use of British decisions in interpreting their own laws.

Both countries recently undertook significant constitutional changes, which raised a wide array of new issues for judges to consider. Canada adopted the Charter of Rights and Freedoms in 1982. In 1994, South Africa adopted a series of constitutional principles that were later codified into the South African Constitution of 1996. Both of these entrenched the constitutional protection of a long list of civil liberties, including freedom of religion and expression; a wide array of defendants rights; several equality provisions; and a number of language rights.

Prior to the adoption of these constitutions, each country relied on the constitutional norm of parliamentary sovereignty, which meant that legislatures could always have the final say about a policy even if judges disliked its human rights impact.12 The new constitutions changed this for judges in both countries by granting judges the authority to devise appropriate remedies for constitutional violations, including the power to declare legislation void. Commentators in both countries emphasize that the adoption of these constitutions have fundamentally transformed the nature of law and judicial power. Numerous observers (Mandel, 1989; McWhinney, 1983; Morton, 1987; Russell, 1983; Weiler, 1984) emphasize the significance of the Charter’s departure from the principle of parliamentary sovereignty. For example, Snell and Vaughan (1985) argue that “in every sense of the term [the Charter begins] . . . a new era for the Supreme Court of Canada and the Canadian political system” (p. 253). The transformation in South Africa is similarly remarkable. As Ellmann (1995) notes, the new constitution gives South Africa, for the first time, “a judicially enforceable set of constitutional liberties and thereby abrogates the longstanding tradition of Parliamentary supremacy” (p. 474).

Litigants in both countries almost immediately brought suit to address some highly contentious political issues. During its first 5 years of deciding Charter cases, the Canadian Supreme Court dealt with cases involving abortion, foreign policy, minimum prison sentences, Quebec’s language policy, and the right to strike. In the same length of time, the South African Constitutional Court dealt with the highly controversial issues of the death penalty, the rationing of kidney dialysis, gay rights, and the acceptability of the constitution itself.

12. Before the Charter’s adoption, Canadian judges had the power to strike down policies enacted by the inappropriate level of government. However this was not a final veto because one level of government could enact a policy after it had been forbidden to the other level.
These issues presented significant challenges to judges in both countries because so many of them were literally “unprecedented.” Although the two countries had quite different reputations for respecting civil liberties prior to the adoption of their new constitutions, neither Canadian nor South African judges were experienced in the art of fundamental rights review. They had little existing case law to apply to these issues. Because Britain has neither judicial review nor an entrenched bill of rights, British doctrine was also unlikely to provide sufficient guidance for new constitutional questions. As such, Canadian and South African judges were both likely to consider new foreign sources when engaging in the serious business of judging.

Judges in both Canada and South Africa have themselves argued that they lack sufficient precedent to help them answer these new questions. For example, Justice McLachlin (1991) of the Canadian Supreme Court emphasizes the paucity of Canadian civil liberties precedent, arguing,

To understand the significance of the absence of precedent, it is necessary to contrast the method of judicial decision-making in the common law provinces apart from the Charter, with the method which prevails under the Charter. The art of the common lawyer... is the art of applying precedent. The common law developed incrementally, on a case by case basis. It was thought safer and better that the law advance by doing what had been done in a previous case... Consider then the sinking feeling that besets a common lawyer upon finding himself or herself confronted by a new document, an amalgam of unfamiliar American and European and who-knows-what-other ideas, without so much as a case to show the way. (p. 543)

In another lecture, she suggests that the situation encourages consideration of foreign sources:

The difficulty is that the Canadian Charter of Rights and Freedoms is a new experience. We have not had anything like it before. Our judges cannot rely on

13. The Canadian Supreme Court decided some cases that raised civil liberties issues prior to the adoption of the Charter. Some of these were decided in favor of civil liberties claimants, but always because they violated the federal division of power (Morton, 1984). For example, in Saumur v. City of Quebec (1953) 2 SCR 299, the Canadian Supreme Court upheld a Jehovah’s Witness’s challenge to a Quebec law against distributing written material on the streets without prior permission from the police. Although the case was a victory for religious freedom, the Supreme Court based its judgment on the federal division of power, ruling that the national government (but not the provinces) had the power to regulate religious practices. For further discussion, see Macklem (1984). Charter claims are qualitatively very different from earlier arguments in that they are based on direct constitutional protection of civil liberties. This renders pre-Charter precedent less helpful than it might have been to judges seeking guidance on issues related purely to civil liberties.
their own experience to breathe life into the Charter; instead they must find that life elsewhere. (McLachlin, 1989, p. 580).

These views also are apparent in the words of South Africa’s judges. For example, in 1995, Judge Chalskalson argued that “comparative ‘bills of rights’ jurisprudence will no doubt be of importance, particularly in the early stages of the transition when there is no developed, indigenous jurisprudence in this branch of the law on which to draw” (S. v. Makwanyane, 1995, para. 9).

The texts of both constitutions seem to encourage judges to resort to analysis of comparative case law. Chapter 2, Section 39(1) of the South African Constitution\(^4\) declares that

> When interpreting the Bill of Rights, a court, tribunal or forum (a) must promote the values that underlie an open and democratic society based on human dignity, equality and freedom; (b) must consider international law; and (c) may consider foreign law.

The Canadian Charter is not as specific about consideration of external sources. However Section 1 of the Charter\(^5\) implies a role for foreign precedent by declaring that “the Canadian Charter of Rights and Freedoms guarantees the rights and freedoms set out in it subject only to such reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society.” Surveying the case law of other “free and democratic” societies is one way to determine what limits are reasonable under Section 1. Thus it would seem that each constitution encourages but does not require judges to look outside national boundaries for answers.

So far, we have laid out the expectation that judges in both countries will find utility in foreign citations. However it seems likely that there will be higher reliance on external sources in South Africa than in Canada. The degree of change symbolized by the new South African Constitution is much more extensive than the one undergone in Canada. Canada has gone from being a democratic system with parliamentary sovereignty to a democratic system with entrenched rights. In contrast, South Africa is still trying to solidify its transition from an authoritarian, racist regime to a rights-respecting democracy. The fluidity of the situation means that South African judges faced much greater uncertainty.

In addition, Canadian judges developed a small stock of human rights precedent before the adoption of the Charter through their ability to enforce the

\(^4\) The interim constitution included a similar provision in Section 35(1). The full text of the South African Constitution is available at http://www.uni-wuerzberg.de/law/ sf00000_html.

\(^5\) The full text of the Charter is available at http://www.uni-wuerzberg.de/law/ cat02000_html.
federal division of power. In contrast, much of the apartheid regime’s repres-
siveness was carried out through laws, which were in turn enforced by the
South African judiciary. So whereas Canadian judges may find pre-Charter
precedent of use in the Charter era, South African judges may consider their
own preconstitutional precedent too tainted to be of much contemporary use.
Although judges in both countries share the problem of insufficient indige-
nous case law, Canadian judges are unlikely to be as bereft of useful domestic
precedent as their South African counterparts.

South Africans may also be motivated, in ways Canadians are not, to use
foreign precedent to legitimate their new regime both at home and abroad.
South Africans have expressed a desire to distance the country from its past.

The Constitution endorses this approach, declaring in its preamble:

We the people of South Africa, recognise the injustices of our past. Honor those
who suffered for justice and freedom in our land. . . . We therefore, through our
freely elected representatives, adopt this Constitution as the supreme law of the
Republic so as to heal the divisions of the past and establish a society based on
democratic values, social justice and fundamental human rights.

The judges of the Constitutional Court have also been outspoken critics of
apartheid. For example, Judge Mokgoro noted that “the legal system in
South Africa, and the socio-political system in which it operated, has for
decades traumatized the human spirit” (S. v. Makwanyane, 1995, CCT 3/94,
para. 310). Reliance on foreign civil rights cases is one way to emphasize to
both national and international audiences the degree of the change that has
taken place.

South African judges have been explicit about their use of foreign prece-
dent to underscore the legitimacy of the new constitutional regime. When

16. Gibson and Gouws (1997) argue that
to a degree uncharacteristic of dictatorial regimes, South Africa relied heavily on law as
an instrument of political repression during the dark days of apartheid. Certainly there
were countless instances of agents of the state engaging in illegal acts of violence against
South Africans. But a distinguishing peculiarity of the old South African regime was its
willingness to codify its schemes of repression in law. (p. 173)

17. For example, Judge Sachs spent several years in exile after a car bomb that nearly ended
his antiapartheid activities. Before joining the Constitutional Court, Judge Langa was a member
of the African National Congress’s Constitutional Committee. President Chaskalson wrote
extensively about the human rights violations of the apartheid regime.

18. Sikkink (1998) argues that policy makers are often motivated to adopt international
human rights norms “because leaders of countries care about what leaders of other countries
think of them” (p. 520) and because protecting human rights allows them to portray their country
as “a member of the community of liberal states.”
voting against capital punishment, Judge Mokgoro (S. v. Makwanyane, 1995, CCT 3/94, para. 304) blended concerns for the absence of precedent with the desire for greater legitimacy, arguing that the paucity of home-grown judicial precedent upholding human rights, which is not surprising considering the repressive nature of the past legal order . . . requires courts to proceed to public international law and foreign case law for guidance in constitutional interpretation, thereby promoting the ideal and internationally accepted values in the cultivation of a human rights jurisprudence for South Africa.

Similarly, when discussing corporal punishment of juveniles, Judge Langa referred to “a growing consensus in the international community that judicial whipping . . . offends society’s notions of decency and is a direct invasion of the right which every person has to human dignity” (S. v. Williams, 1995, CCT 20/94, para. 10). He then commented that

the Constitution requires us to “have regard” to the [international] consensus referred to above; we are not bound to follow it but neither can we ignore it. The determinative test will be the values we find inherent in or worthy of pursuing in this society which has only recently embarked on the road to democracy. Already South Africa has lagged behind. The Constitution now offers an opportunity for South Africans to join the mainstream of a world community that is progressively moving away from punishments that place undue emphasis on retribution and vengeance rather than on correction, prevention and the recognition of human rights.

It seems clear that South Africa’s judges are seeking to improve their international reputation by demonstrating a newfound respect for human rights. Although the judges do not seem to feel compelled to follow foreign precedent, they do seem prone to use it to cut their information costs and gain greater legitimacy for their decisions.

DATA ANALYSIS

To document the degree of reliance on foreign sources, I examine the first 75 cases in which the Canadian Supreme Court and the South African Constitutional Court decided a claim brought on the basis of their new constitutional provisions. 19 This places the focus on the period of highest judicial uncertainty. For every opinion filed in each of these cases, I recorded the prece-

19. I excluded three Canadian cases that were decided without opinion.
dents that were cited as well as the year in which they were decided and the
country in which the decision was made. Precedents were counted only once
per case, although a precedent might be cited multiple times in a single case,
to avoid exaggerating the extent to which judges were relying on particular
sources. If my theory that legal uncertainty produces greater reliance on
external sources is correct, this is the period in which we should find the
greatest incidence of the behavior. We should find significant rates of foreign
citation in both countries, but significantly higher rates in South Africa than
in Canada. We should also find that reliance on foreign citation decreases as
judges develop their own constitutional precedents.

The data are generally supportive of my expectations. There is a high incid-
ence of foreign citation in the constitutional cases of both countries. In Can-
da, foreign precedent is cited in 48 (64%) of the cases. The Canadians cite
foreign precedent 373 times for an average of 4.97 foreign citations per Char-
ter decision. In South Africa, foreign precedent is cited in 51 (68%) of the
cases. The South Africans cite foreign cases 795 times for an average of 10.6 for-
eign citations per constitutional decision. Although the number of constitu-
tional cases that makes reference to foreign sources is similar in both coun-
tries, the range of reliance is lower in Canada. The maximum number of
foreign citations in a single Canadian case is 21, whereas the maximum num-
ber of foreign citations in a single South African case is 90. This fits with my
expectation that both courts would rely on foreign citations but that foreign
citations would be more prevalent in South Africa than in Canada.

If we begin with the expectation that most citations will be domestic, then
the amount of foreign citations found here will immediately seem significant.
At the very least, we have evidence that the judges in both countries feel there
is some utility in relying on foreign sources. However the argument I have
developed about constitutional change interfering with the utility of existing
domestic precedent demands a stronger test. This can be derived by compar-
ing reliance on foreign versus domestic citations. Here the data are more sur-
prising. There are greater rates of reliance on domestic precedent than my
theory led me to expect. Both courts cite domestic precedent in all but one of
their constitutional cases. Canadian judges cite domestic precedent 1,060 times
for an average of 14.13 domestic citations per case. South African judges cite
domestic precedent 1,020 times for an average of 13.6 domestic citations per
case. The maximum number of domestic citations in a single case in Canada
is 79, and the maximum number in South Africa is 63. Clearly, judges find
homegrown precedents to be of greater utility than I had expected.

20. This was the case whether the same judge mentioned the case frequently in one opinion
or whether the precedent was mentioned multiple times in multiple opinions filed in the same
case.
However if we consider the age of the domestic precedents cited, we find some support for the idea that new constitutions have prompted judges to cite new sources. In both Canada and South Africa, judges quickly reduced their reliance on precedents that had been handed down prior to the adoption of their new constitutions.\textsuperscript{21} Citation of older precedent generally declines relative to “new” precedents during the course of the study. Judges increasingly relied on newer precedents as they became available.\textsuperscript{22} This suggests that judges felt the need to depart from old models.

South African judges seem particularly likely to develop new models based on the greater degree of change in their country and the pressing need to legitimate their regime. We would therefore expect greater use of foreign precedent in South Africa. To test this argument, I compared the rates of reliance on foreign and domestic precedent in the two countries. Consistent with my expectations, South Africans place more reliance on foreign precedent relative to domestic precedent than do Canadians. (See Table 1.) Although there is significant reliance on indigenous law in both countries, there is a greater international flavor to South Africa’s constitutional decisions.

I also have argued that foreign citations should decline over time as judges develop their own precedent. The data I have collected are not ideal for analyzing this question, as they cover a relatively short period of time.\textsuperscript{23} Even so, it may be possible to draw some tentative conclusions about the relationship between a court’s constitutional decision-making experience and its reliance on foreign sources. The data are generally consistent with my expectations—there is something of a decline in reliance on foreign sources as time passes and the availability of indigenous constitutional precedent increases. (See

\textsuperscript{21} To compare relative reliance in Canada, I subtracted the number of citations to post-Charter precedents from the number of citations to pre-Charter precedents. In the first year, the mean score is .33, which means greater average reliance on old than on new cases. By the second year, the mean had dropped to –1.27. For the whole period, the mean for Canada is –2.13. In the first year with the new South African constitution, citations to old domestic cases outweigh those to new domestic precedents by an average of 10.71. In the second year, this falls to 5.32. For the whole period, the mean for South Africa is 5.47.

\textsuperscript{22} Constitutional change has also changed the sources from which Canadian judges borrow foreign precedent. In cases that do not raise Charter issues, the Canadian Court cited British precedent 415 times, 86% of the total 485 foreign citations. By contrast, in Charter cases, the Canadian Court cites British precedent 98 times, only 30% of the total 324 foreign citations. The chi-square for this difference is 256.19 (p < .001). The same comparison cannot be performed for South Africa because its Constitutional Court does not hear nonconstitutional cases. However British precedents constitute only 12% of all foreign citations in South Africa, following far behind the rate of citation to the United States and Canada.

\textsuperscript{23} The South African Court decided its first 75 cases between early 1995 and September 1998. The Canadian Court took slightly longer, handing down its first Charter decision in May 1984 and its 75th in December 1988.
Table 2.) The pattern is not linear, although generally there is less reliance on foreign precedent relative to domestic precedent from year to year. To get a more exact measure of experience, I created a counter variable, which reflects the order in which the cases were decided. This approach is premised on the more realistic argument that judges grow more experienced with every case they decide rather than in annual increments. In fact, there is a small but significant relationship between the number of cases each court has already decided and the presence of foreign sources cited in the opinions for that case. In Canada, the correlation is \(-.154\) \(\text{p} < .093\). In South Africa, the relationship is somewhat stronger, with a correlation of \(-.311\) \(\text{p} < .003\). Thus it would appear that judges in both countries became increasingly self-reliant, even across a relatively short time period.24

**OTHER FACTORS INFLUENCING CITATION RATES**

I began this article by arguing that use of precedent can reflect concerns for utility as well as authority. So far, I have focused on the utility precedent provides when judges face novel constitutional questions. I now consider two other factors, also related to utility, that may influence the number of citations. These are the degree of disagreement among the judges and whether the court rules against the government. Both of these are premised on the idea that judges use precedent as a form of justification in their efforts to persuade other actors.

Judges use precedent to convince their readers that their solution is the correct one. As such, we might expect judges to rely on a greater number of precedents when the persuasive task is more difficult. If all the members of a court agree that a proposed solution is the right one, a judge may feel that presentation of a limited range of evidence will suffice. On the other hand,

24. This is consistent with Manfredi’s (1990) findings about the Canadian Supreme Court’s first years with the Charter and with Bushnell’s (1986) discussion of the Canadian Supreme Court’s citation behavior in the 19th century.
<table>
<thead>
<tr>
<th>Year</th>
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<th>Domestic Citations</th>
<th>Foreign Citations</th>
<th>Difference</th>
<th>South Africa Number of Cases</th>
<th>Domestic Citations</th>
<th>Foreign Citations</th>
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judges may feel compelled to cite a large number of cases when they face concerted opposition from colleagues. Similarly, dissenting judges may use precedent as ammunition against the majority to demonstrate the strength of reasoning in support of the outcome they prefer. On this basis, I hypothesized that the number of precedents cited (both foreign and domestic) will rise along with the degree of disagreement among the judges.

As expected, I found a significant correlation in both countries between the number of citations employed and the number of opinions filed in a case. There is a linear increase in the number of both foreign and domestic citations based on the number of opinions filed (see Table 3). The larger the number of active participants in the debate, the greater is the incidence of citations to both foreign and domestic sources. Rather than trading off against one another, the citation of foreign and domestic precedents tends to co-vary. It would appear that the perceived utility of all precedents increases along with the range of disagreement.

We also should remember that judges address their arguments to external as well as internal audiences. Even if judges agree among themselves about the appropriate resolution for a case, they may feel pressure to convince outside observers that they are correct. As such, their use of citations may be directed at a larger audience than that of their colleagues. Judges may employ citations strategically in an attempt to improve the acceptance of their decision by the public and other policy makers. This may be particularly important when judges innovate, as Walsh (1997) suggests. Use of citations, both foreign and domestic, may have appealed to Canadian and South African judges as they attempted to persuade others to comply with their interpretations of their new constitutions. We might expect the citation rate to be particularly high when the judges vote to overturn the actions of other policy makers, for invalidating policies on civil rights grounds is relatively novel and compliance cannot be assumed. If citing precedent creates the appearance of devotion to law (rather than politics), then citations may serve the strategic benefit that Knight and Epstein (1996) attribute to them. On this basis, I hypothesized that judges will cite precedent more frequently when they overturn government action than when they uphold it.

25. As social psychologists have demonstrated that people are more likely to pay attention to claims and to be persuaded by them when the perceived number of sources increases (Harkins & Petty, 1981; Moore & Reardon, 1987), this would appear to be a good strategy for a judge to employ.

26. This results largely from the inability of judges to enforce their own decisions. They rely on legislatures to fund and executives to enforce their decisions. The public’s support may also be required if a court is to achieve full implementation of its decisions.
<table>
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<th>Foreign Citations</th>
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<tr>
<td>Two</td>
<td>6</td>
<td>15.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Three</td>
<td>8</td>
<td>18.5</td>
<td>16.3</td>
</tr>
<tr>
<td>Four or more</td>
<td>12</td>
<td>29.8</td>
<td>34.9</td>
</tr>
</tbody>
</table>
The data are generally consistent with this expectation. In both Canada and South Africa, judges cite more precedents when they overturn policies. (See Table 4.) On average, Canadian judges cite 16.7 precedents (12.3 domestic and 4.4 foreign) when supporting the government and 23.6 precedents (17.5 domestic and 6.1 foreign) when overturning the government. The increase in citations is even greater in South Africa, where judges cite an average of 17.2 precedents (10.4 domestic and 6.8 foreign) when upholding government action and 33.7 precedents (17.9 domestic and 15.8 foreign) when overturning government actions. Notice that the rate of foreign citations relative to domestic citations is higher in South Africa than in Canada, both when government action is overturned and when it is upheld. This suggests again the greater importance of international norms in South Africa—where many old domestic norms have been repudiated as part of the democratic and constitutional transition.

To get a better picture of how all these factors come together to influence the use of international precedent, they were combined in a regression equation designed to model the use of foreign citations. The dependent variable is the number of foreign citations. The independent variables are as follows:

- the number of the case in the order it was decided (experience),
- the number of opinions written in the case (number of opinions), and
- a dummy variable for which side won (wins, coded 1 if the policy was upheld and 2 if overturned).

The regression equation was run separately for each country. The results appear in Table 5.

Based on the multivariate analysis, we see strong similarities in the factors that influence the use of foreign citations in Canada and South Africa. The number of opinions is the strongest (and most significant) predictor of the number of foreign citations. This suggests that the range of arguments offered is the most important influence leading to reliance on foreign prece-

27 One might argue that precedent from England is not truly foreign to Canada or South Africa because it has a strong influence on the development of law in both countries. Decisions of the contemporary English courts are no longer authoritative in either Canada or South Africa, although law students continue to be exposed to historic English precedent. English law thus provides an “in-between” category of “not-quite-domestic but not-quite-foreign” precedent. In the main analysis, I included English cases in the foreign category. If the analysis is rerun removing English cases, the results are essentially unchanged. The number of opinions is a significant predictor of foreign case use (1.55, \( p \leq .001 \) in Canada and 4.71, \( p \leq .000 \) in South Africa), and experience continues to be significant in South Africa (–.115, \( p \leq .06 \)). The \( R \)-squared for each equation increases slightly to .189 for Canada and .553 for South Africa.
Table 4

Citations per Case by Country and Case Outcome

<table>
<thead>
<tr>
<th>Case Outcome</th>
<th>Canada</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Cases</td>
<td>Domestic Citations</td>
</tr>
<tr>
<td>Government policy upheld</td>
<td>49</td>
<td>12.3</td>
</tr>
<tr>
<td>Court rules against the government</td>
<td>26</td>
<td>17.5</td>
</tr>
<tr>
<td>Difference of means for total citations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>significance = .099</td>
<td></td>
</tr>
</tbody>
</table>
dent. The more divisive the argument, the greater is the utility of precedent as judges endeavor to write persuasive opinions.28

The multivariate results provide some support for the theory that foreign citations are related to the experience that a court has in interpreting its constitution. In both Canada and South Africa, there is an inverse relationship between the number of cases a court has decided and the reliance on foreign citations. The relationship is small, however, and it narrowly misses statistical significance in Canada. The relationship between foreign citations and case outcome disappears when subject to multivariate analysis. From this data, it appears that it is the degree of conflict over an issue more than judicial inexperience or possible threats from overturning policies that leads judges to search for assistance from foreign sources.29

DISCUSSION

This article began with the claim that precedent reflects judicial concerns for utility as well as authority. The data presented here are consistent with the idea that judges cite the decisions handed down by other judges, not only because they feel compelled to do so (the authority argument) but also because they find it useful to do so (the utility argument). The factors that seem to have the greatest influence on perceived utility are the need to answer

28. An increase in the number of opinions also increases reliance on domestic citations, those decided both before and after the adoption of the new constitutions. This reinforces the idea that judges are looking for greater amounts of “ammunition” as the burden of persuasion becomes more challenging.

29. I have greater confidence in the findings for South Africa than for Canada given the relatively high adjusted $R^2$-squared for the South African equation (.547) and the relatively low $R^2$-squared for the Canadian equation (.179). Further study will be necessary to paint a satisfactory picture of the Canadian Court’s citation behavior.
new and/or particularly contentious questions that have come before the judges.

A comparative research design was used to study the use of precedent to provide greater understanding of judicial behavior as a general phenomenon. Until recently, most judicial politics scholarship was limited to the United States. Even as comparative politics has become more interested in courts, most studies have been done on single countries or within one region of the world. By comparing courts from different continents facing similar problems, I hope to have reduced the danger of merely documenting the idiosyncrasies of a single national system rather than providing insight into a more general form of judicial behavior. In this article, I have demonstrated that despite the many differences between the two countries, judges in Canada and South Africa have made considerable use of precedent from abroad. It would appear that the qualities they share, including their common law heritage and the adoption of constitutional provisions protecting civil liberties, were more important than their differences.

My analysis revealed that judges in these two countries have found utility in relying on foreign as well as domestic precedent in a period of relative uncertainty. Faced with contentious arguments over new questions, judges found it useful to take advantage of the experience of other courts that had dealt with the same sort of questions. They found foreign and domestic precedent particularly useful when there were higher rates of disagreement and their need for justification was highest. They used foreign precedents although they were not professionally obligated to do so. They continued to rely on foreign precedent, even after having developed a small stock of indigenous precedent, particularly when they faced higher degrees of disagreement among their colleagues.

By considering civil liberties cases from other countries, Canadian and South African judges have made themselves part of the global debate on the appropriate extent of human rights in democratic societies. Scholars of globalization have tended to omit judges from their studies, choosing instead to

30. There are notable exceptions to this generalization, including Gibson, Caldeira, and Baird (1998) and Epp (1998).

31. For example, Ducat, Ostberg, and Wetstein (1998) found that between 1984 and 1995, the U.S. Supreme Court cited external sources in only 6% of its cases and that almost all of those references were to British cases decided before 1800. If we were to base our understanding of judicial citations on a study of the U.S. Supreme Court alone, we might wrongly conclude that high court judges almost never look outside their own boundaries for citations. This reinforces Hall and Brace’s (1999) point that “to achieve the primary scientific goal of developing general theory that takes into account the complete range of forces affecting the politics of courts, comparative analysis is essential” (p. 282).
focus on diplomats, nongovernmental organizations, and corporations as the key actors in the transfer of norms from one society to another. 32 My findings suggest that this is a significant oversight because judges can be an active part of the globalization process. McGrew (1998) defines globalization as “a process which generates flows and connections, not simply across nation-states, but between global regions, continents and civilization” (p. 327). Judicial borrowing of civil rights precedents from other countries is a significant example of such “flows and connections.” The extensive citation of foreign sources in Canadian and South African court opinions demonstrates that judges must be included in our models if they are to tell the complete story of globalization.

The mention of globalization raises normative concerns for some. Commentators often worry that globalization will result in a kind of colonial domination in which indigenous approaches are displaced by external ones, most often from the United States or Western Europe. 33 Judges in both Canada and South Africa display sensitivity to such criticism. For example, in South Africa, Judge Pius Langa argued that “our ultimate definition of these concepts must necessarily reflect our own experience and contemporary circumstances as the South African community” (S. v. Williams, 1995, CCT 20/94, para. 4). And in Canada, Justice LaForest insisted that judges “should be wary of drawing too ready a parallel between constitutions born to different countries in different ages and in very different circumstances. American jurisprudence, like the British, must be viewed as a tool, not a master” (Rahey v. R, 1987, 1 SCR, para. 588). Other members of each court have expressed similar sentiments.

Canadian and South African judges have advocated a skeptical, utilitarian approach to foreign precedent. They all seem to agree with Judge Langa that it is valuable to consider “the matter in which the concepts are dealt with in international law as well as in foreign case law” (S. v. Williams, 1995, CCT 20/94, para. 4), so long as foreign sources are considered in light of their similarity to and utility for the domestic legal situation. Judges debate the wisdom of borrowing specific norms from other countries and often decide to reject or modify foreign practices based on their imperfect fit with domestic needs. For example, the South African Court rejected precedent from Britain, New Zealand, Australia, Germany, and the United States on the ability of courts to review acts of executive prerogatives (President of the Republic of South Africa v. Hugo, 1997). Moreover the Canadian Court has often rejected U.S.

32. See, for example, Sikkink (1998) and Gessner and Budak (1998).
33. For example, Silbey (1997) writes that she is “worried about how local justice can be achieved within a supposedly universal, one-size-fits-all law” (p. 222).
defendants’ rights precedents, choosing to provide a broader interpretation than their neighbor to the south (Harvie & Foster, 1990). Rather than merely following foreign majority opinions, judges in Canada and South Africa have often found the logic of foreign dissenting opinions to be more persuasive. This further emphasizes the fact that borrowing is a voluntary process based on perceptions of utility. Judges cite foreign precedent not because they have to but because they find it useful.

REFERENCES


34. This was particularly true when the South African Court considered the constitutionality of the death penalty. In S. v. Mokswanyane (1995), the majority of South African judges cited a dissent from a denial of certiorari in Callins v. Collins, in which he had argued against the majority’s decision not to hear a case that had upheld the use of the death penalty in the United States.


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This study investigates several hypotheses relating to the policy positions adopted by coalition
governments in parliamentary democracies. Previous research, based on the comparative mani-
festos project’s coding of party manifestos and coalition government declarations, has found that
the linkage between the left-right positions of coalition governments and the positions of the par-
ties that compose them is surprisingly weak. This investigation uses the same data to reveal a
much closer correspondence between the two in West European systems. This linkage initially
appeared to be weak because it is partially masked by additional influences on government pol-
icy emanating from the formateur party, the finance minister’s party, the external support parties
sustaining the government (if any), and the parliamentary center of gravity. In addition, govern-
ment policy is affected by the position of the preceding government and shows a marked ten-
dency to drift rightward with the passage of time since the last election.

COALITION POLICY IN
PARLIAMENTARY DEMOCRACIES
Who Gets How Much and Why

PAUL V. WARWICK
Simon Fraser University

Much of the fascination that parliamentary regimes hold for students of
democratic government resides in their nontransparency. Unless vot-
ers give a single party a parliamentary majority (which is usually not the
case), it may be far from obvious which party or parties will form the next
government and, in the event that a coalition takes office, how cabinet portfo-
lios and policy influence will be allocated among its members. Given that
bargains made can always be unmade, the length of time that any such gov-
ernment can expect to remain in office is equally unclear. Political outcomes
in these circumstances often seem less a function of voters’ choices than of
largely invisible processes of party positioning and interparty bargaining.

AUTHOR’S NOTE: I wish to thank Ian Budge for supplying both the government manifestos
data and the 1997 version of the comparative manifestos project (CMP) data and François Pétry
for supplying his parties and governments data for the French Fourth Republic. Neither they nor
the CMP are responsible for the use made of the data here.

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It was entirely to be expected that this situation would engage the attention of formal theorists, and indeed, a very active and productive research agenda has emerged in recent years. Perhaps the simplest prediction derives from Black’s (1957) median voter theorem: It anticipates that the median party, regardless of its majority status, will be able to impose its own policies for as long as it holds this status (which makes largely irrelevant the issue of which parties, if any, will coalesce with it). The loosening of key assumptions that generate this result—especially the assumption of a single policy dimension—has led to the development of much more complex but arguably more realistic models that often embrace the possibility that coalitions will form in which no one party monopolizes anything.

Different models, of course, yield different predictions. Consider the situation with respect to the policy outcomes of coalitional politics. A cornerstone of Laver and Shepsle’s (1996) well-known portfolio allocation theory is that each party in a governing coalition is able to implement its own policies in the areas under its jurisdiction. The party that holds the finance ministry, for example, is presumed to exercise paramount control over government taxation and spending policies. In contrast, “proposer” models such as those put forward by Baron (1998) and Diermeier and Feddersen (1998) see influence over government spending as shared among parties, with the party in charge of the formation process using its position to take a disproportionately large share.

I use policy outcomes as the example here because it is the area in which the least amount of empirical testing of competing theoretical expectations has been generated. Is it true that fundamental policy decisions such as taxation and government spending are biased toward the wishes of the government proposer or formateur in parliamentary systems, as the proposer models suggest, or do they mirror instead the wishes of the party holding the finance ministry (assuming these are different), as the portfolio allocation approach would imply? Alternatively, could it be that influence over government policy simply reflects the legislative sizes of the members of the governing coalition, with no party disproportionately advantaged? Anecdotal evidence aside, the short answer is that we simply do not know.

Clarification of these matters would be of considerable value for both the insight it would provide with respect to the most basic of government’s duties, the making and implementing of policy decisions, and the clues it would yield concerning which theoretical directions are the most worthy of pursuit. Despite these potential gains, however, the lion’s share of the empirical work on parliamentary governments has focused instead on the composition and survival of governments. This is not because composition and survival matter more; indeed, a good case could be made that their value largely
depends on the implications they bear for policy. Rather the greater attention these matters have received largely relates to the fact that they are readily measurable. The tasks of determining which parties entered a government, how portfolios were distributed among them, and how long the government survived in office are minuscule compared with those of measuring its policy output.

The gap in measurement capacity is not quite as stark as it appears, however. The empirical investigation of parliamentary government formation and survival typically entails some measurement of the ideological or policy positions of parties, and researchers realized some time ago that party manifestos or platforms could be used for this purpose (e.g., Budge, Robertson, & Hearl, 1987). But if content analyses of the party manifestos can be employed to generate estimates of their policy positions, it follows that the same type of analysis can be applied to coalition government declarations to generate corresponding estimates of government positions. Granted, the analysis of these declarations would provide evidence of what governments say they will do, which may not be the same as what they actually do. But at the very least, such an analysis should provide a good indication of how much each party concedes when a coalition deal is struck.

This type of enterprise was undertaken on one occasion for 11 mainly West European countries by the comparative manifestos project (CMP) and reported in Laver and Budge (1992). Although much useful information did emerge from these analyses, there were certain disappointments. Foremost among these was the finding that the impact of parties on government policy is generally quite modest—indeed, nonexistent in some countries (Budge & Laver, 1992b). To be specific, coalition policy did not appear to correspond consistently well with the mean or weighted mean position of the parties in the coalition or the legislature or with the positions of either the median party or the predominant party on a left-right scale (Budge & Laver, 1992b). Although improvements in both data accuracy and model specification are possible, Budge and Laver were obliged to conclude that any such improvements were unlikely to reverse the basic conclusion that “party policy, influential though it obviously is in coalition bargaining, still has less consistent and strong effects than those assumed by policy-based spatial models” (p. 429).

The aim of this article is to reexamine the entire issue of the determinants of coalition government policy with the aid of both the government declarations and the party manifestos data gathered and coded by the CMP. Although the data source remains the same, the hypotheses to be examined range considerably beyond those included in the Budge and Laver (1992b) investigation. Among these are the prediction, derived from proposer models of legislative bargaining, that the party forming the government should be able to
capture a disproportionately large policy payoff and the proposition, most
starkly expressed in Laver and Shepsle’s (1996) portfolio allocation model,
that policy in any given area should correspond with the position of the party
given jurisdiction over that area. Budge and Laver’s (1992b) finding of a
rightward bias in government programs will also be investigated, as will the
notion that changes in government policy are constrained by the status quo.
Underlying these issues is the larger matter of whether Budge and Laver’s
pessimism concerning the degree of linkage between party and government
policies is indeed warranted. As we shall see, it is not.

HYPOTHESES ABOUT COALITION
GOVERNMENT POLICY

Let us begin with a brief discussion of various factors that may affect
collective government policy and that are amenable to investigation with the
aid of the party manifestos and government declarations data sets. Some time
ago, Gamson (1961) proposed the hypothesis that each participant in a coali-
tion will expect to receive a share of the payoff that is in proportion to the
resources it contributes and, consequently, that only coalitions that match
payoffs with resources will form. Browne and Franklin (1973) subsequently
put this hypothesis to the test, with striking results. Operationalizing the
resources of a coalition party as the proportion of legislative seats it contrib-
utes to the coalition’s total (its “seat share”) and its payoff as the share of min-
isterial portfolios it receives, they found a nearly perfect one-to-one corre-
spondence between the two in West European parliamentary systems.
Indeed, so close was the connection between seat and portfolio shares that
some observers (e.g., Morelli, 1999) have come to refer to it as Gamson’s law.

To assert a law on the basis of relatively few empirical studies is optimis-
tic; it is even more so in this case because the only type of payoff examined
was the quantitative allocation of portfolios. Browne and Franklin (1973)
assumed that the number of portfolios a party receives may stand in for its
overall payoff but provided no evidence that this is the case. Because the
CMP’s coding of government declarations provides a more direct measure of
the policy outcome of coalition deliberations, an alternative test of Gamson’s
hypothesis becomes possible. This test would consist of determining whether
collecion policy corresponds with the weighted mean position of the parties
in the government, with the parties’ seat shares constituting the weights. In
this formulation, each party’s seat share remains the resource it brings to the
collection, but its payoff is measured in terms of the proximity of collection pol-
icy to its own policy position. If collection members are rewarded in policy
according to the legislative seats they contribute, coalition policy should match this weighted mean.

The next five hypotheses cover other possible influences on government policy emanating from party policies, most of which were not considered in Budge and Laver’s (1992b) investigation. The first such influence is based on the policy position of the formateur party, that is, the party that was assigned the task of putting the coalition together. Proposer models, as noted earlier, generally anticipate that the formateur party should be able to extract a disproportionately large share of coalition payoffs. In policy terms, this means that the formateur party should be able to “pull” coalition policy closer to its own position than would otherwise be the case. The influence of the formateur party’s policy preferences on the weighted mean position derives solely from its seat share; if formateur status gives it extra leverage, we would expect government policy to be biased away from this weighted mean in the direction of its own position.

A very different approach to coalition formation was taken by Laver and Shepsle (1996), whose portfolio allocation model was predicated on the assumption that ministers are policy dictators in their jurisdictions. In the specific policy area governed by a given minister, the model assumes that policy preferences of the minister’s party will prevail. This assumption cannot be tested in a rigorous fashion with the manifestos and government declarations data because they do not lend themselves to the generation of the relatively narrowly defined policy dimensions central to the Laver-Shepsle (1996) approach. Nevertheless it turns out that the left-right dimension produced from these data is closely related to the most important of Laver and Shepsle’s policy dimensions, that concerning the trade-off between reducing taxes or increasing expenditures. Because they assume that the finance minister has jurisdiction over this issue, it is reasonable to infer from their approach that some linkage should exist between the government’s left-right policy position and that of the party holding the finance ministry.

If Gamson (1961) is right that parties expect payoffs in proportion to the amount of resources they contribute to the coalition, then there is one circumstance in which the weighted mean policy position of government parties will fall short: that in which the government depends on the support of parties not represented in the cabinet. There may be occasions, to be sure, when such external support is ad hoc in nature, varying from one issue to the next. But where one or more parties have entered into an arrangement to support the

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1. The portfolio allocation model requires that policy dimensions be defined in terms of the jurisdictions of the various cabinet ministries. Laver and Shepsle (1996) therefore relied on expert assessments of party positions on policy dimensions defined to accord with this criterion.
government on an ongoing basis, it is plausible that policy concessions have been extracted in return for this support. This may cause the government’s policy declaration to be biased toward the weighted mean position of the external support parties.

Apart from these considerations, governments may respond in some way to the policy concerns of opposition parties. One reason why this might occur is because governments feel an obligation to appear less divisive and more consensual in their approach to policy making. This presumably would reveal itself in the existence of a bias in government programs toward the weighted mean position of all parties in the parliamentary system. The available data cannot tell us whether such a bias, if it exists, would signal a sincere intention to moderate policies or would constitute nothing more than a public relations exercise designed to show the government’s desire to govern with the entire population’s interests in mind. Nevertheless, it need not be solely “window dressing”: some formal models (e.g., Baron, 1998; Diermeier & Feddersen, 1998) incorporate the possibility that the opposition may receive some positive policy payoff.

A final possibility is that government policy is biased toward the position of the cabinet party that experienced the largest improvement in its seat share in the most recent elections. Mansergh (1999), in testing the first hypothesis listed here on three Irish coalition governments, found evidence of such a bias in two of the cases. Her evidence suggests that a strong showing at the polls may strengthen a party’s bargaining position, creating expectations of superior treatment in coalition negotiations and perhaps reducing fear of the consequences if negotiations should break down.

The preceding hypotheses all involve the potential influence of the policy preferences of various parties or groups of parties in the parliamentary arena. But other types of influence are possible as well. One such influence is the dead weight of past policy. Whatever policy position a coalition government agrees on, it may be necessary or expedient to move policy to that position only gradually. This might occur because the new government believes that policies cannot be changed quickly without causing undue disruption, waste, and confusion or because it does not wish to frighten voters (or markets) by appearing too radical or iconoclastic. Although we cannot measure the evolution of government policy over time (the government data record declared policy only at the beginning of each government’s tenure in power), it may be possible to capture the weight of the past with a lagged dependent variable,

2. The reasons Budge and Laver (1992b) suggest are that policy making is consensual or that governments may be threatened with defeat in a confidence motion if policy concessions are not made. The latter possibility is captured here via the preceding hypothesis, which involves policy concessions made by minority governments to their external supporters.
the previous government's policy position. If policy inertia is present, we might hypothesize that the previous government’s position exerts an independent influence on that of the new government.

The final type of effect to be considered concerns the tendency for government declarations to be more rightwing than the mean positions of the parties composing them. Budge and Laver (1992b), who reported the tendency, speculated that it may reflect the preoccupation of government declarations with “administrative concerns and ongoing matters of government (for example defence and foreign policy) which have not necessarily entered into the election campaign”; if so, they concluded, it would “cast some doubt upon the validity of using published policy declaration[s] as indicators of ‘real’ government policy” (p. 411). This is not the only interpretation possible, however. If the rightward bias of government policy varies systematically with certain economic conditions such as rising inflation and/or declining unemployment, it may indicate that government parties have seen some need to alter their policy stances to accommodate those conditions. Thus we might expect a rise in inflation and/or a decline in unemployment between the time of the last election and the time the government is formed to be positively associated with the degree of rightward bias in government policy.

It is also possible that no adverse changes in economic conditions are needed to generate a rightward drift in government policies. Generally speaking, one would expect government declarations issued soon after elections to represent the positions of the parties in the cabinet relatively accurately because the commitments made to voters are recent. Individual cabinet parties may have to make concessions to their coalition partners, but there is no reason why the overall effect of these concessions should be to move government policy to the right. With time, however, things may change. A left-wing interpretation of these changes would be that big business is able to exert its influence (i.e., its blackmail potential) to induce governments gradually to abandon electoral commitments and accept more right-wing policies. A right-wing interpretation would be that with time, governments are increasingly forced to face socioeconomic reality, which generally means easing away from unrealistic commitments and adopting more workable (i.e., more market-friendly) policies. We cannot adjudicate between these rival perspectives here, but we can determine whether the rightward bias in government policy is positively related to the time that has elapsed between the last election and the formation of the government.

The hypotheses to be tested are summarized in Table 1. It is appropriate to conclude this discussion by noting one hypothesis that will not be considered, the hypothesis that government policy corresponds to that of the median party. There are a number of reasons for this. The first is that Budge and Laver...
tested the hypothesis on a country-by-country basis and found that it worked well in only a couple of countries. More significant is the fact that medians can be very sensitive to small changes in party sizes and placement along the dimension, which means that the failure of the CMP to code the manifestos of minor parties leaves the median indeterminate in some cases.3

Finally, there is the problem that even with complete information, medians can be nonunique: Counting to the median from one direction does not always produce the same result as counting from the other direction.

3. Median parties are given for these systems in the various contributions to Laver and Budge (1992). However I found that I was unable to reproduce the same median party in many instances using the same data, which probably indicates that assumptions were made by those authors about the placement of small, noncoded parties that critically affect the location of the median.
Although the median-party hypothesis will not be tested, the range of hypotheses that will be examined is extensive—certainly much more so than has ever been attempted. The choice, moreover, is theoretically apposite, involving important implications from major theoretical streams as well as possibilities not previously embedded in theoretical formulations. The use of multivariate techniques will make it possible to bring competing hypotheses into confrontation with each other for the first time. In the next section, I outline how the testing will be effected.

DATA AND METHODS

The objective of this article is to analyze the influences on government policy in West European parliamentary systems and, in particular, to determine the nature and degree of connection between party and government policies in those systems. The only available data dealing directly with government and party positions in these countries over a broad range of policy areas are the codings of party manifestos and government declarations undertaken by the CMP. The CMP maintains an ongoing program of coding party manifestos for a wide variety of democratic countries and has made these data available to the academic community for some time; the 1997 version of the data set is the one that will be used here. Government declarations, in contrast, have been coded just once for a more limited subset of countries and have yet to be released for general use. That coding effort covered all governments in those countries, apart from single-party majority governments, in the postwar period up to approximately the mid 1980s. The data set built for this study combines the two sources and covers the 10 European systems included in the latter source.4

The basic coding scheme for both data sets consists of recording the amount of attention devoted to each of 54 topics or issues. This scheme was designed to accord with a “saliency” interpretation of party behavior, which holds that parties stress issues with which they are uniquely or largely identified and ignore or downplay other issues. A number of issues, however, are coded separately into positive and negative mentions (e.g. labor groups: negative versus labor groups: positive) to reflect the fact that parties often stake out opposing positions in these areas. This fits poorly with the saliency

4. The countries and periods covered are Belgium (1945-1982), Denmark (1945-1984), France (1946-1958), Ireland (1981-1983), Italy (1948-1983), Luxembourg (1945-1985), the Netherlands (1946-1990), Norway (1945-1990), Sweden (1945-1989), and West Germany (1949-1987). The French Fifth Republic was omitted to exclude the possible influence of a strong president on policy.
approach and has led some to question the appropriateness of the entire coding scheme (e.g., Laver & Garry, 2000). Nevertheless one of the fundamental findings to emerge from analyses of the party manifestos data is that they do yield very good indications of the left-right position of parties.

This can be seen with the measure of left-right party position developed and used in the Laver and Budge (1992) volume. With the aid of exploratory factor analyses, Budge and Laver (1992a) identified 13 issues that could be interpreted as left wing and a further 13 that are classifiable as right wing. Their measure calculates left-right position by subtracting the total amount of attention devoted in manifestos to the left-wing issues from the total amount allocated to the right-wing issues (Budge & Laver, 1992a). They assessed the measure’s accuracy informally by calculating party positions for Britain and found a high degree of face validity—the positioning of the principal British parties corresponded, with very few exceptions, to accepted wisdom in all elections examined (Budge & Laver, 1992a). A more systematic indication of its accuracy was provided in Gabel and Huber’s (2000) comparative evaluation of five manifesto-based measures of left-right party position, which shows that the Budge-Laver measure provides party positions that correspond very well with estimates derived from surveys of country experts.

Not only do the party manifesto data provide good measurement of left-right party positions but also it appears that the addition of further dimensions does not improve matters very much. In the country analyses undertaken by the contributors to the Laver and Budge (1992) volume, two-dimensional representations of the policy space were found to generate better results in

5. Of the 13 left-wing items, five concern state intervention, four involve peace and cooperation, and the rest are the individual items democracy, social service: positive, education: positive, and labor groups: positive. The right-wing items consist of five referring to capitalist economics, six involving social conservatism, plus freedom and human rights and military: positive.

6. The Budge-Laver (1992a) measure performed noticeably better than both the original Budge, Robertson, and Hearl (1987) measure and Klingemann’s (1995) measure and approximately the same as the Laver-Garry (2000) measure, which is a variant of it. The only measure that clearly outperformed the Budge-Laver measure was the one derived from Gabel and Huber’s “vanilla” method. This method is a factor analytic method that is not well suited to the present data set, however, because the different coding scheme used for the French Fourth Republic data (see as follows) precludes the application of the method to the entire dataset. The French data could be factor analyzed separately, but Gabel and Huber’s (2000) analysis indicates that applying the method to individual countries produces much less accurate results. The Budge-Laver measure, as we shall see, is readily extendible to the French data. Another indication that the coding scheme adopted by the comparative manifestos project (CMP) does not lead to inaccuracy is Laver and Garry’s (2000) finding that an alternative coding of British and Irish manifestos of 1992, which was designed specifically to address their reservations concerning the original CMP coding scheme, yielded measures of left-right position virtually identical ($r = .94$) to those produced using the original scheme.
only one country: Belgium. Indeed in only four European countries did a much more complex 20-dimensional representation perform better (Budge & Laver, 1992b). In this sense, the Budge-Laver (1992a) left-right measure captures much of the information that the manifestos and declarations contain concerning party positions.

A third advantage of this measure is that it makes it relatively straightforward to handle the case of the French Fourth Republic, whose coding presents special problems. The first of these is that the government declarations data were coded into 18 rather than 54 categories (Pétry, 1992). Fortunately, the difference is not as great as it appears because the 18 categories include most of the major designations used in the Budge-Laver (1992a) measure. The principal deviation for our purposes is that two left-wing items are absent (education: positive and labor: positive) and two different left-wing items have been added (laicity and antiright). By using the latter in place of the former, a measure of left-right position that is very similar to the Budge-Laver measure can be created. The second problem is that the manifestos data are very incomplete and sometimes of questionable accuracy. This problem can be overcome by using Pétry’s much more comprehensive coding of party positions, which follows the same 18-category coding he used to code the government declarations. Although these changes appear relatively innocuous, the data analysis will be conducted with an eye to any unusual effects deriving from the data for France.

Apart from these considerations, there is one further reason why the Budge-Laver (1992a) measure will be used to estimate the policy positions of parties and governments: It allows us to maintain comparability with the findings reported in Budge and Laver (1992b). This will be valuable for determining whether the various other considerations outlined in the preceding section enhance our ability to account for declared government policy. The influences in question will be operationalized and tested as follows.

The basic measure against which the government’s declared policy will be assessed is the weighted mean position of the parties composing the cabinet, with each party’s cabinet seat share (share of cabinet-held legislative seats) providing its weight. This variable will be known as the cabinet weighted mean. Under the first hypothesis, there should be a close connection between the two.

Other factors may mask or obscure this connection, as we have seen. One such factor is the policy preferences of the formateur party. This party’s abil-

7. The worst case of omissions is the 1951-1956 legislature, whose total of three coded parties is far too few for meaningful analysis. As for inaccuracies, an outstanding example is the Communists in 1946, who receive a score of 18.9 on the Budge-Laver scale (1992a), considerably to the right of the Socialists (–14.4) and rather close to the Conservatives (25.5).
ity to capture a disproportionate share of the policy payoff has been an important feature of a prominent stream of formal models. If the formateur party’s position itself were used as an independent variable, however, it would show a high degree of overlap with the cabinet weighted mean because formateur parties tend to be located close to the cabinets they form (Warwick, 1998). What we really want is a variable that records the formateur party’s influence above and beyond its contribution to the weighted mean, in other words, a variable that can reveal any bias in government policy away from the cabinet weighted mean and toward the formateur party’s position. This type of effect can be captured by means of a variable that records the formateur party’s deviation from the cabinet weighted mean (i.e., the formateur party’s left-right position minus the cabinet weighted mean). Under the hypothesis, the further the formateur party deviates to the right or left of the cabinet weighted mean, the more government policy should be pulled in that direction. Thus any disproportionate capacity of the formateur party to move government policy toward its own position should be reflected in a significant positive role for this variable, labeled formateur-cabinet distance.

The assumption of ministerial autonomy that drives Laver and Shepsle’s (1996) theory is less easily tested with the data at hand, because the left-right policy scale would appear to be too encompassing to be under the exclusive control of any one minister. Laver and Shepsle’s tests employed a more narrowly defined component of it—the issue of what balance should be struck between the conflicting goals of reducing taxes and increasing expenditures—which they regard as the exclusive prerogative of the finance ministry. As noted earlier, however, the dilemma is less serious than it appears because party positions on this issue, at least as measured by the “taxes versus spending” dimension of Laver and Hunt’s (1992) expert survey (which is the source Laver and Shepsle relied on), are very closely associated with the Budge-Laver (1992a) positions \(r = .792, p < .001, n = 63\). This suggests that the issue is at the very heart of the left-right dimension used here. If so, then by the hypothesis of ministerial autonomy or dictatorship, government policy on this dimension should be heavily influenced by the preferences of the party holding the finance ministry. This can be assessed by determining whether the deviation of the finance minister’s party from the cabinet weighted mean—denoted finance minister–cabinet distance—exerts any independent influence on government policy.

The possibility that government policy takes account of the preferences of external support parties—that is, parties that provide essential parliamentary

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8. This variable is not weighted by the formateur’s size because proposer models see the formateur’s influence as emanating from its status as a proposer, not from its size.
support but do not take up cabinet positions—is a relatively neglected consideration. The only study to explore this issue in any detail was Warwick’s (1994) investigation of government survival, which found that taking the support parties into account enhanced the capacity of the variables he considered to account for longevity in office. Following Warwick, support parties will be identified as those parties that formally ally with or openly declare their intention to support the cabinet, as identified in Keesing’s Contemporary Archives (1945-1990). Because coalition governments can have more than one support party, the overall location of the external support will be represented by their weighted mean position, with each party’s share of the total amount of external support constituting its weight. The influence of these parties will be measured by supporter-cabinet distance, the deviation of their weighted mean position from the cabinet weighted mean; in cases in which there are no support parties (which is true about 80% of the time), this distance is set equal to zero.

The next policy-distance effect to be considered is that emanating from the parliamentary center of gravity. This center can be represented with the weighted mean position of all parliamentary parties (using parliamentary seat shares as the weights), but it is unclear whether this mean should be calculated for the current parliament only or whether a more generalized version is warranted. The latter would better capture the notion that governments are responding to a sense of where public opinion has been centered over an extended period of time. Two versions were therefore created: the weighted mean party position in the current parliament and the average of the weighted mean positions in all previous legislatures in that country (the cumulative weighted mean). For each version, the possibility that government policy is biased toward it will be captured by means of a variable, parliament-cabinet distance, that records its deviation from the cabinet weighted mean.

The final position-based hypothesis concerns the possibility that the party that has profited the most in the preceding election will exert disproportionate influence over government policy. This party is identified as the party that had the largest increase in parliamentary seats in that election. Any disproportionate influence for this party should be reflected in a significant role for gainer-cabinet distance, the deviation of its position from the cabinet weighted mean.

9. A more extensive definition of support parties, which includes all parties known to be government supporters, was also tested. It turned out, however, to perform less well.
10. To use the largest proportional increase would be to bias results in favor of very small parties. A party that increased its seats from one to two would show a 100% increase, for example, but it seems unlikely that it would wield a great deal of bargaining power because of that single extra seat.
The other possible influences to be considered concern policy inertia—a tendency for past government policy to constrain future policy, net of other factors—and the rightward bias in government programs reported by Budge and Laver (1992b). As noted earlier, policy inertia will be represented by means of a lagged dependent variable, declared government policy—lagged. To incorporate the idea that adverse changes in economic circumstances generate the rightward bias, inflation rates and unemployment rates at the time of the last election and at the time of government formation have been recorded. Because the bias is to the right, we would expect it to be related to increasing inflation and/or decreasing unemployment in that time interval. Inflation change registers the change in the annual rate of inflation between the month of the last election and the month in which the government was formed; unemployment change records the corresponding change for unemployment rates. If policy drifts to the right regardless of economic conditions, then the length of time between the election and government formation alone should account for it. This hypothesis will be captured by time since last election, a variable recording the number of months elapsed between the two occurrences.

Let us turn now to the issue of research design, beginning with the choice of statistical methodology. Generally speaking, the most appropriate way to handle a cross-national data set is to use a hierarchical or multilevel model. The distinguishing feature of this type of model for present purposes is that it permits slopes and intercepts to vary across higher level units, in this case across the various countries in the sample. Because the variances of these slopes and intercepts are calculated, however, it is necessary to have not only adequate numbers of cases per country but also adequate numbers of countries as well. Jones and Duncan (1998) argue, for example, that it would not be appropriate to have hundreds of respondents in just 10 higher level units. In the present data set, the situation is considerably less favorable: We have complete data on just 154 governments in 10 countries.


12. A straightforward introduction to multilevel models is provided in Jones and Duncan (1998).
For this reason, a multilevel approach will not be adopted as the principal methodology here; ordinary least-squares regression will be used instead. Close attention will be paid, however, to the possibility that relationships differ across countries and, where the evidence warrants it, interactive terms will be used to capture the deviant situations. Fortunately (given the relatively small number of cases under scrutiny), this situation does not crop up very often.

The testing procedure will be guided by the notion that absent any other influences, government policy should reflect the weighted mean position of the cabinet parties. This starting point is indicated not only because it embodies the earliest hypothesis on the subject but also because the other hypotheses involve it as a reference point. For instance, the formateur advantage hypothesis suggests that the formateur may be able to pull government policy away from the cabinet weighted mean toward its own position. Any such tendency can be assessed by regressing government policy on both cabinet weighted mean and formateur-cabinet distance; the effect estimated for the latter variable would then register the degree of formateur advantage. Note that the effect associated with the weighted mean need not weaken or disappear if formateurs are advantaged; indeed, the opposite might be true. If the underlying tendency is for proportionality, the presence of formateur-cabinet distance should lead to a strengthening of the estimated proportionality effect because the distortion generated by the formateur’s disproportionate influence will have been controlled.

A theoretical approach premised on the idea that only the formateur wields disproportionate influence implies no significant effects for any other independent variables. Clearly, assessing this implication requires the presence of the other proposed influences on government policy in the regression model. This is no mere formality; the risk of misattributing effects is considerable. Consider, for example, the third hypothesis, which alleges disproportionate influence for the party holding the finance ministry. It so happens that the formateur party holds this portfolio in about two thirds (64.3%) of the governments under scrutiny. If the third hypothesis is true, the consequence could be that any disproportionate influence that formateurs appear to exert on policy may actually emanate from their propensity to control finance ministries rather than from their status as formateurs. Because the roles played by any of the other proposed influences may also create a risk of mistaken inference, the appropriate procedure for testing this and the other hypotheses is

13. Inspection of bivariate relationships indicates that linearity is a reasonable assumption; the rationale for additivity is discussed as follows.
not to conduct separate hypothesis tests but rather to look for net effects when all other influences are controlled.

DATA ANALYSIS

When Budge and Laver (1992b) investigated the effect of the weighted mean cabinet position on government policy, they found a very mixed picture: The relationship was strong in three of the eight countries they examined ($r^2 \geq .29$), relatively weak in a couple of others ($0.12 \geq r^2 \geq .05$), and negligible in the remaining three ($r^2 < .02$). The other five hypotheses they tested produced equally mixed results and even lower correlations on average—all of which induced their conclusion that only a weak connection exists between party policy and government policy.

The finding that relationships vary so much by country probably encouraged Budge and Laver (1992b) to report their results on a country-by-country basis. It is not clear, however, that this is the most appropriate way to proceed. For one thing, there was no theoretical reason to anticipate variations across countries: the hypothesis linking government policy with the cabinet weighted mean (like their other hypotheses as well as those outlined here) is meant to apply without qualification to all parliamentary systems. Moreover although the evidence certainly showed wide variations across countries, it is also true that the numbers of cases per country are relatively small; these differences may therefore not be statistically significant.\(^{14}\)

A reexamination of the relationship provides ample grounds for believing that the data can, in fact, be pooled. The results of regressing government policy on the cabinet weighted mean over all cases in the present sample are reported in the first model of Table 2. They show a sizeable and highly significant positive effect, but is the relationship confined to just a few countries? Whereas the effects do vary by country, the use of interactive terms to capture these deviations reveals that a statistically significant deviation from the overall tendency occurs in only one country, the French Fourth Republic.\(^{15}\)

14. Correlations are not the best way to make cross-national comparisons in any case because they may vary not only when the relationship differs in different contexts but also when the variances of the variables differ across contexts.

15. This was done by performing 10 regressions, each of which were entered the weighted cabinet mean, a country dummy, and an interactive term formed by the product of those two variables. In 2 of the 10 regressions, the country slope was negative, but in neither case was the deviation from the overall relationship statistically significant.
ing methodology employed for the French manifestos and declarations differs substantially from that used for the rest of the sample. What matters more is that the nature of this deviation does not violate the hypothesis: The French data differ by showing a significantly stronger relationship between the variables. Thus there is neither any theoretical nor any statistical reason to infer anything other than a positive relationship between the cabinet weighted mean and the government’s policy position and, with the possible exception of France, no reason to suppose that it differs in strength across systems.

Although we can conclude, at least tentatively, that government policy does track the weighted mean policy of cabinet parties, it is also evident that the relationship is far from being one to one. In this sense, Budge and Laver’s (1992b) conclusion remains valid. We have noted, however, five other policy positions that may be interfering with this connection. They are the policy positions of the formateur’s party and the finance minister’s party, the weighted mean positions of the support parties (if any) and all parliamentary parties, and the position of the party gaining the most seats in the last elections. In each case, the effect will be captured by means of a variable measuring the deviation of the policy position in question from the cabinet weighted mean. For the parliamentary center of gravity, however, it is unclear whether the weighted mean position of parties in the current parliament or a cumula-

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient (SE)</td>
<td>Standardized</td>
</tr>
<tr>
<td>Intercept</td>
<td>3.481 (1.455)</td>
<td>—</td>
</tr>
<tr>
<td>Cabinet weighted mean</td>
<td>0.497 (0.081)</td>
<td>0.445</td>
</tr>
<tr>
<td>Formateur-cabinet distance</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Finance minister–cabinet distance</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Supporter-cabinet distance</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Parliament-cabinet distance</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gainer-cabinet distance</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.192</td>
<td>.292</td>
</tr>
<tr>
<td>$N$</td>
<td>154</td>
<td>154</td>
</tr>
</tbody>
</table>
tive mean should be used as a reference point. Testing both versions reveals that the cumulative weighted mean produces a parliament-cabinet distance variable that is more strongly linked to the dependent variable; it is the version that will be used here.

The influences of these five variables are shown in the second model of Table 2. In each case, support for a hypothesis would be indicated by a significant effect coefficient attached to the appropriate variable in addition to any effect attributed to the cabinet weighted mean. Exclusive support for that hypothesis would be indicated by an absence of other significant effects. Such a theoretically decisive outcome is not in evidence, however. In fact, the first four hypothesized influences all affect government policy in the appropriate direction and at or very near to conventional levels of statistical significance ($p = .05$) in a one-tailed test. Clearly, there are grounds for believing that each of these policy positions has some degree of influence on declared government policy. The one exception is the policy position of the largest gainer in the last election; it appears to have no influence at all on declared government policy. The results also show that controlling for these factors allows a much closer connection between the cabinet weighted mean and declared government policy to emerge, suggesting that the relative weakness found earlier was due to a suppression of the effect by these other influences.

The remaining hypothesized influences on declared government policy all involve time in some fashion. One concerns the dead weight of past policy, represented here by a lagged dependent variable. The others relate to the possibility that the gap between government and party policy may increase in the postelection period, perhaps reflecting changing economic circumstances or just a tendency for government policy to drift rightward over time. As it happens, the latter turns out to be more accurate. Only the variable recording the amount of time elapsed since the last election is able to provide a significant net contribution to the explanation of the government’s declared policy position. The impact that this variable and the lagged dependent variable add to the variables already shown to play some role can be seen in the third model, which is presented in Table 3. Clearly, there is a very substantial drag on government policy imposed by previous government policy (net of any similarity in the policy positions of consecutive cabinets, formateurs, finance ministers, and so forth) as well as a pronounced tendency for government pol-

16. If all four variables are added to Model 2 of Table 2, only time since last election and government policy—lagged show significant effects. The coefficients for change in unemployment and change in inflation are 0.516 ($SE = 1.109$) and $-0.097 (SE = 0.467)$, respectively. This model is not shown in Table 2 because the inclusion of the economic variables entails a large loss in numbers of cases ($N = 118$), primarily because accurate economic data are not available for the Fourth Republic.
icy to move to the right as the time gap between the election and the formation of the government widens. In fact, these are among the strongest determinants of government policy, apart from the cabinet weighted mean itself. Despite their importance, however, the addition of these variables does not undermine the role of the variables previously showing effects in any serious way and, as a result, all seven variables show significant (in most cases highly significant) effects on government policy.

Model 3 provides evidence that most of the effects hypothesized earlier have substance; what remains to be determined is whether these effects can be taken as cross-nationally relevant. Further testing of country effects reveals that in just two other instances can a significant country deviation be detected. Both deviations involve the Fourth Republic, which appears to lack influences emanating from the parliamentary center of gravity and from the

Table 3
Policy and Nonpolicy Influences on Government Policy (ordinary least squares regressions)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 3 Coefficient (SE)</th>
<th>Model 3 Standardized Coefficient</th>
<th>Model 4 Coefficient (SE)</th>
<th>Model 4 Standardized Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>2.567 (1.725)</td>
<td>—</td>
<td>2.902 (1.680)</td>
<td>—</td>
</tr>
<tr>
<td>Cabinet weighted mean</td>
<td>0.802 (0.140)</td>
<td>0.717</td>
<td>0.935 (0.166)</td>
<td>0.836</td>
</tr>
<tr>
<td>Formateur-cabinet distance</td>
<td>0.256 (0.138)</td>
<td>0.115</td>
<td>0.271 (0.130)</td>
<td>0.121</td>
</tr>
<tr>
<td>Finance minister–cabinet distance</td>
<td>0.279 (0.101)</td>
<td>0.169</td>
<td>0.251 (0.094)</td>
<td>0.153</td>
</tr>
<tr>
<td>Supporter-cabinet distance</td>
<td>0.439 (0.120)</td>
<td>0.230</td>
<td>0.438 (0.113)</td>
<td>0.229</td>
</tr>
<tr>
<td>Parliament-cabinet distance</td>
<td>0.418 (0.143)</td>
<td>0.360</td>
<td>0.651 (0.174)</td>
<td>0.561</td>
</tr>
<tr>
<td>Government policy–lagged</td>
<td>0.260 (0.064)</td>
<td>0.301</td>
<td>0.335 (0.067)</td>
<td>0.344</td>
</tr>
<tr>
<td>Time since last election</td>
<td>0.421 (0.081)</td>
<td>0.325</td>
<td>0.428 (0.074)</td>
<td>0.340</td>
</tr>
<tr>
<td>Cabinet weighted mean × France</td>
<td>—</td>
<td>0.239 (0.217)</td>
<td>0.078</td>
<td></td>
</tr>
<tr>
<td>Parliament-cabinet distance × France</td>
<td>—</td>
<td>−0.886 (0.236)</td>
<td>−0.250</td>
<td></td>
</tr>
<tr>
<td>Government policy–lagged × France</td>
<td>—</td>
<td>−0.520 (0.149)</td>
<td>−0.232</td>
<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.445</td>
<td></td>
<td>.529</td>
<td></td>
</tr>
<tr>
<td>$N$</td>
<td>154</td>
<td></td>
<td>154</td>
<td></td>
</tr>
</tbody>
</table>
policy stance of the preceding government. The addition of interactive terms to capture these deviations plus the deviation noted earlier involving the cabinet weighted mean produce the results presented in Model 4 in Table 3. They show that France is indeed a deviant case with respect to two of these variables, government policy–lagged and parliament-cabinet distance, and that the overall effect of these variables on government policy is stronger once the influence of the French case has been controlled. As noted earlier, it is impossible to know whether the Fourth Republic is truly a deviant case or whether it simply appears deviant because it was coded differently. The key point, however, is that there is no other evidence suggesting that these patterns differ by country—no reason, in other words, not to treat them as general.

DISCUSSION

One of the more notable findings that emerges from the preceding data analysis is that the connection between the weighted mean position of cabinet parties and the government’s declared policy stance is very close, much closer than appeared to be the case in the bivariate relationship shown in Model 1. In fact, with the other factors controlled, a near one-to-one correspondence emerges between the two variables. This is indicated in Model 4 by an intercept that is not significantly different from zero ($a = 2.902, SE = 1.680$) and a slope ($b = 0.935$) that is close to unity. The lack of fit between government and party policies lamented by Budge and Laver (1992b) as well as several of their collaborators now appears to have been overly pessimistic.

This finding would seem to affirm that Gamson’s (1961) proportionality conjecture applies to policy payoffs as well as portfolio allocations. Gamson’s reasoning is also sustained by the significant role played by supporter-cabinet distance: Where parties have declared their willingness to provide external support for cabinets, they appear to be rewarded for their contribution to the government’s viability with policy concessions. A strong degree of proportionality between contributions to a government’s parliamentary basis and policy rewards, while very important, is not the only factor at play, however. We have seen evidence that a number of other considerations affect the declared policy stances of governments. One of these is the policy preferences of the formateur’s party. Model 4 provides the first empirical evidence that the formateur party may be able to exploit its position to extract more than its proportional share of the payoff. Although this supports a central premise of proposer models of legislative bargaining, it should also be noted that the effect is quite limited. In fact, it is the weakest and least significant effect in the model (apart from an insignificant interactive term). Formal
models that see the formateur as grabbing the lion’s share of the policy pay-off, with other cabinet members perhaps doing only marginally better than if they had stayed in opposition, receive little comfort from these results.

The finding of a significant effect emanating from the position of the finance minister’s party would seem to provide support for another key assumption used in formal modeling, the ministerial autonomy assumption that underpins Laver and Shepsle’s (1996) portfolio allocation model. Here too the evidence is not totally clear-cut. Model 4 falls well short of a sweeping endorsement of the assumption because total control over government policy on the left-right dimension by the finance minister should preclude effects emanating from any other source, which is clearly not the case. In fact, government policy on this dimension more closely reflects the entire cabinet’s preferences than the preferences of the party holding the finance ministry.\textsuperscript{17} On the other hand, the failure of government policy to coincide exactly with the policy position of the finance minister’s party is not decisive evidence against the assumption because the left-right dimension used here is not identical with the taxes versus spending dimension that Laver and Shepsle identify as the finance minister’s jurisdiction.\textsuperscript{18} The most that can be concluded is that net of other factors, the party holding the finance ministry does wield some degree of influence over left-right policy beyond that to which its size alone would entitle it.

The remaining policy position to show an effect on declared government policy is the parliamentary center of gravity. As noted earlier, the tendency toward moderation in government declarations captured by the parliament-cabinet distance variable may represent nothing more than an exercise in public relations; only a detailed comparison of what governments say and what they actually do in office can determine how much substance there is to this effect. But what is clear from Model 4 is that the moderating tendency in government declarations is a powerful one (with the possible exception of France). In fact, France apart, the parliamentary center is the paramount influence in moving declared government policy away from the cabinet weighted mean, much stronger than the influences exerted by the formateur

\textsuperscript{17} On average, the government’s policy is 14.1 units away from the cabinet weighted mean and 16.1 units away from the position of the finance minister’s party.

\textsuperscript{18} I attempted to create a scale that resembled more closely a tax versus spending scale by recalculating the Budge-Laver (1992a) scale using only those items that were associated with taxation or public spending. Unfortunately, this new scale did not prove to be any more closely associated with the Laver-Hunt (1992) tax versus spending scale ($r = .763$) than is the original left-right scale ($r = .792$). The problem could lie with the Laver-Hunt scale, of course, but there is no way of knowing this.
party or the finance minister’s party. If hypocrisy lies at its root, then the degree of hypocrisy must be large indeed.

The other significant influences on declared government policy concern past (declared) government policy and a tendency for policy to drift rightward with the passage of time since the last election. With respect to past policy, it is important to underline that the effect is independent of other influences in the model. This means that it is not the spurious consequence of any tendency for successive governments to resemble each other, such as when a government is reelected or forms from the remain of its predecessor. Had this not been the case, controlling for the cabinet weighted mean would have substantially weakened or eliminated the effect. What then is its source? One possibility is that it represents a realization by the new governing coalition that policy cannot realistically be quickly changed. A more cynical alternative is that it is intended merely as a display of responsibility or nonpartisanship, in other words, “window dressing.”

The final effect in Model 4 is certainly not window dressing: It shows that the rightward bias that Budge and Laver (1992b) noted of government policy declarations is a function of the time elapsed since the issuance of the party manifestos. This implies that it is not the consequence of a preoccupation in government declarations with the more mundane details of governing, as Budge and Laver supposed—such a preoccupation would presumably be time invariant. Instead it appears that the parties forming coalition governments increasingly disengage from electoral commitments and move policy rightward as those commitments become more distant. As noted earlier, it is possible to see in this tendency the nefarious influence of big business on democratic government or a salutary effort of parties to disentangle themselves from impractical promises and face socioeconomic realities. Whatever the case, the fact that this drift may well account for the entire systematic rightward bias in government declarations (the intercept in Model 4 is significant only at the p = .086 level) suggests that the declarations are better guides to “real” government policy than Budge and Laver realized.

**CONCLUSION**

The preceding discussion highlights both the limitations and the strengths of the analysis of party and government policy statements. The chief limita-

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19. The bivariate slope for government policy—lagged is $b = 0.383$ ($SE = 0.073$). The addition of the other nine variables causes it to fall only slightly to $b = 0.335$ ($SE = 0.067$), indicating that its effect is largely independent of these other factors.
tion is that we do not know what governments actually do, we only know what they say they will do. Thus we have found that government policy statements reveal the influence of past government policy and the parliamentary center of gravity, but we do not know whether actual policies show these influences. Other effects would leave open major issues of interpretation, even if they could be shown to be real. For instance, is the rightward drift an instance of how capitalism undermines democracy or merely evidence that parties may make unrealistic commitments at election time and then abandon them when they can credibly do so?

The upshot is that there is plenty of scope for future research; the present effort represents merely a “second cut” at the sole extant data source covering government policies across a broad range of issues and governments. Nevertheless we should not underestimate what has been achieved. We have learned, for one thing, that declared government policy tracks the weighted mean position of cabinet parties very closely, as Gamson (1961) anticipated. This initially appeared not to be the case, but the weakness in the relationship turned out to be partly due to the need to make concessions to support parties as well as a tendency, perhaps more public relations than substance, to position the government closer to the parliamentary center. The weakness also reflects the disproportionate influence of the finance minister and the formateur, but both of these influences are relatively small—perhaps too small to sustain the assumption of ministerial autonomy or the degree of formateur advantage that figures in some formal models. Although the source of the rightward drift over time remains unclear at present, it seems likely that its existence—if confirmed in future research—will influence our understanding and evaluation of parliamentary government in important ways.

Beyond these individual findings lie two more general conclusions. The first is that declared government policy does not appear to follow the prescriptions of any one hypothesis or theoretical thrust. Instead it reflects a number of separate influences. Some of these may be no more than window dressing, but even so, the evidence does seem to imply a more complex confluence of forces than formal models typically incorporate. The second conclusion is simply that declared government policy turns out to be highly explicable. About one half of its variance as measured here has been accounted for; if reasonable allowance is made for measurement error (which I would suggest is substantial, given the nature of the data), the set of variables used here may account for a good deal more. The coefficient of determination ($R^2$) is sometimes criticized for its potential to mislead, but one thing is undeniable: If any of the influences identified in this analysis turn out to be spurious, it will be because others have been found that better explain govern-
ment policy. The present analysis has shown, in other words, that declared government policy can be explained, even if not by the same factors as used here. Given the central place that government policy occupies in the evaluation of political systems, this outcome suggests that further efforts to measure and quantify the concept should be a priority for investigators of democratic government.

REFERENCES


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This article examines the causes of party system fragmentation in new democracies, arguing that party formation and coordination in emerging party systems are closely linked to the politics of democratization. In particular, elections that occur late within regime transitions are likely to produce more fragmented party systems than are early founding elections; in situations of economic instability, the decentralizing effect of a late founding election is likely to be greater. The results confirm this hypothesis: The farther away founding elections occur from the transfer of executive authority from an authoritarian regime, the more fragmented is the resulting party system. The effect of a late founding election increases as the inflation rate increases. These results are important because the pattern of fragmentation established in founding elections is relatively stable; indeed, founding elections do not appear anomalous compared with subsequent elections, contrary to conventional wisdom.

COORDINATING PARTY CHOICE IN FOUNDING ELECTIONS
Why Timing Matters

GARY M. REICH
University of Kansas

Why do founding elections in some emerging democracies produce a small number of broadly based electoral blocs, whereas others generate a proliferation of political parties? The study of party system fragmentation has gained increased relevance as parties and elections have become the most important vehicles to political power throughout the developing world. Party fragmentation is a central determinant of governability in emerging democracies, influencing whether coalition governments are necessary, the cost of passing and implementing legislation, and even, arguably, whether democracies are likely to survive. Founding elections play a crucial role in the development of party systems and also have long-term implications for

AUTHOR’S NOTE: This article is better for the input of Fiona Yap, Ronald Francisco, Kenneth Benoit, two anonymous reviewers at Comparative Political Studies, and my colleagues in the Kansas Beer and Politics seminar. None of the aforementioned should be held liable for any remaining errors, omissions, or foolery.

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institution building; as Bermeo (1987) points out, parties that do well in founding elections are often afforded the opportunity to draft new constitutions and decide the fate of leaders of the previous regime.

The number of parties in any given electoral system can be seen as the outcome of a coordination game (Cox, 1997). Theoretically, national elections can produce as many parties as district magnitudes will allow. For example, a legislature elected in $n$ single-member plurality districts—which theory tells us will tend to produce a two-party system at the district level—can be expected to produce anywhere from two parties at the national level, if the same two parties dominate in every district, to $2^n$ parties if different parties dominate in every district. Thus in a country with 435 single-member districts, a two-party system and an 870-party system are, theoretically, equally plausible. This raises the question on which this study is focused: What conditions induce voters and candidates to coordinate their partisan allegiances in founding elections? The answer given here is that party fragmentation is tied to when founding elections occur within a broader democratization process. More specifically, when founding elections take place late in the democratization process, party fragmentation is likely to be higher than when elections occur earlier; furthermore, when elections occur late and economic conditions are unstable, party systems are more likely to splinter among numerous blocs.

This study makes several important contributions in understanding party fragmentation in general and developing party systems in particular. First, although there is now a rich body of research on party systems within regions (Latin America, East-Central Europe, Africa), there have been virtually no efforts at cross-regional, empirical studies of founding elections. ¹ This article incorporates the widest-ranging cross-regional data set of founding elections to date, including founding elections held between 1945 and 1998 from every region of the world. Second, the results here contribute to our understanding of the causes of party fragmentation, suggesting that a contextualized account of emerging party systems is as important in understanding party fragmentation as “structural” approaches that emphasize electoral laws or social cleavages (and that have thus far been the mainstay of the party system literature). Third, this article suggests that the existing emphasis on the “exceptionality” of founding elections has been overstated. Indeed, patterns of party fragmentation and voter turnout established in founding elections are relatively stable and are not anomalous in comparison with subsequent elec-

¹. There is one notable exception: Turner (1993) conducted a cross-regional analysis of founding elections, but his data were limited to 11 parliamentary elections in Western Europe and Japan.
tions. Finally, the findings here on the causes of multipartism complement recent research on the institutionalization of new party systems, work that has shown a link between institutionalization, electoral volatility, and the number of parties (Coppedge, 1997; Mainwaring, 1998; Mainwaring & Scully, 1995; Roberts & Wibbels, 1999).

DEFINING FOUNDING ELECTIONS AND CASE SELECTION

O’Donnell and Schmitter (1986) define a founding election as the first competitive multiparty election following a period of authoritarian rule. However, this definition is ambiguous for purposes of case selection. To create a systematic method for selecting cases, several provisos are added to the O’Donnell-Schmitter definition. First, a founding election is enmeshed within a broader transition from authoritarianism to democracy: It is part and parcel of the societal transformation toward political pluralism and mass participation. This does not necessarily mean that the resulting democracy will become consolidated; however, it does mean that regime transitions that emerge from or lead to semidemocracies (and the tainted electoral processes with which such regimes are associated) violate a core assumption of founding elections—namely, that these elections represent the recruitment of a previously repressed society into a new and fully competitive electoral process. Therefore, the examination of founding elections is confined to countries that experienced a transition from authoritarian rule to democratic rule, as defined by an expanded version of the Political Regime Change data set, originally collected by Gasiorowski (1996) and updated by the author.²

A second feature of founding elections is their newness. Because founding elections mark the activation, or reactivation, of party politics after a long dormancy, they necessarily follow a significant period in which electoral politics were proscribed. To capture the novelty of these electoral events, only countries that experienced a transition to democracy after at least 10 years of authoritarian rule are selected here. Admittedly, 10 years is an arbitrary benchmark. However, a decade provides a long enough experience with authoritarian rule that one can be reasonably confident of capturing the new-

² The original Political Regime Change data set included 97 countries in the developing countries. The updated and expanded version of the Political Regime Change data set, prepared by the author, extends coverage of all countries to December 1998 and includes the countries of the former Soviet Union, Eastern and Central Europe, Western Europe, and Japan. The coding for the expanded data set follows the scheme established by Gasiorowski (1996). The data and country descriptions are available from the author on request.
ness that is central to the concept of founding elections without deleting too many potentially relevant cases. Third, to be considered competitive, founding elections must be preceded by the liberalization of political party activity—the explicit acknowledgment by the ruling government of the right to form political parties independent of the state as well as the removal of legal restrictions that prevent any significant segment of public opinion from participating in the party system.

To sum up, founding elections are the first competitive, multiparty elections occurring during a transition to democracy after (a) at least 10 years of authoritarian rule and (b) following reforms that allow for the formation of multiple political parties independent of the state and free from state repression. All elections selected for this study had to meet these criteria. Although in almost all cases, founding elections are also the first postauthoritarian elections, this is not uniformly true; for example, Poland and Romania held multiparty elections in, respectively, 1989 and 1990. However these elections are not considered founding elections because in both cases, the integrity of the electoral process was significantly undermined by the ruling government.

Founding elections produce widely varying degrees of party fragmentation. Table 1 shows the effective number of parties (ENP) for the 40 founding elections included in this study. The ENP is the Laakso-Taagepera index of party fractionalization, the most widely used measure of fragmentation, and is computed as

\[ \frac{V^2}{\sum v_i^2}, \]

where \( V \) is total valid votes and \( v_i \) is the number of valid votes for each party. However because the ENP is weighted toward the largest parties, it does not give an indication of support for minor parties. To gauge the extent of voter support for minor parties, Table 1 also shows the total percentage of the vote.

3. In all, 54 cases met the conditions for inclusion as founding elections. Of these, 6 cases, representing four countries, were excluded from consideration because transitions occurred after less than 10 years of authoritarian rule. These cases included: Ghana (October 1979 and September 1969), Sierra Leone (April 1968), Togo (May 1963), and Turkey (October 1961 and January 1974). The remaining cases were excluded due to unavailable or insufficient data on popular votes for each party at the national level.

4. In the 1989 Polish election, the Communist Party reserved two thirds of seats for Communist Party candidates, whereas in Romania, widespread electoral fraud and violence resulted in the ruling party winning 68% of the parliamentary seats.

5. In cases in which minor party votes are aggregated into a residual category, estimations of effective number of parties (ENP) are used, as recommended by Taagepera (1997). This correction uses an average of the possible range of party fragmentation in the presence of a residual category.
Table 1

Summary Information for 40 Founding Elections

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>ENP</th>
<th>Total % of Valid Votes for Parties With Less Than 10% of National Vote</th>
<th>Average District Magnitude</th>
<th>Type of Electoral System and/or Legal Thresholds (T) and % of Vote Needed</th>
<th>Ballot Structure (single versus double, fused versus unfused)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1983</td>
<td>2.54</td>
<td>12.1</td>
<td>10.6</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Austria</td>
<td>1945</td>
<td>2.22</td>
<td>5.6</td>
<td>6.6</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1991</td>
<td>4.40</td>
<td>29</td>
<td>1</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Benin</td>
<td>1991</td>
<td>9.10</td>
<td>69.4</td>
<td>10.7</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Brazil</td>
<td>1945</td>
<td>3.66</td>
<td>11.9</td>
<td>13.6</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Brazil</td>
<td>1982</td>
<td>2.66</td>
<td>14</td>
<td>18.4</td>
<td>PR</td>
<td>Single, fused</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1990</td>
<td>2.85</td>
<td>18</td>
<td>4.07</td>
<td>Mixed (50% PL, 50% PR), T = 4%</td>
<td>Double</td>
</tr>
<tr>
<td>Chile</td>
<td>1989</td>
<td>2.49</td>
<td>12.5</td>
<td>2</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Colombia</td>
<td>1958</td>
<td>2.22</td>
<td>.9</td>
<td>5.69</td>
<td>PR</td>
<td>Single, fused</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>1990</td>
<td>3.10</td>
<td>27.8</td>
<td>12.5</td>
<td>PR, T = 5%</td>
<td>Single</td>
</tr>
<tr>
<td>(in each republic)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>1979</td>
<td>6.39</td>
<td>53.5</td>
<td>3.4</td>
<td>PR</td>
<td>Double</td>
</tr>
<tr>
<td>Estonia</td>
<td>1990</td>
<td>2.78</td>
<td>NA</td>
<td>2.3</td>
<td>STV</td>
<td>Single</td>
</tr>
<tr>
<td>F.R. Germany</td>
<td>1949</td>
<td>4.86</td>
<td>27.8</td>
<td>4.6</td>
<td>Mixed (60% PL, 40% PR)</td>
<td>Single</td>
</tr>
<tr>
<td>(T = 5% (in each land))</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>1974</td>
<td>2.73</td>
<td>11.6</td>
<td>5.1</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Hungary</td>
<td>1990</td>
<td>6.31</td>
<td>28.5</td>
<td>6.13³</td>
<td>Mixed (46% PL, 54% PR), T = 4%</td>
<td>Double</td>
</tr>
</tbody>
</table>

(continued)
<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>ENP</th>
<th>10% of National Vote</th>
<th>Average District Magnitude</th>
<th>Type of Electoral System and/or Legal Thresholds (T) and % of Vote Needed</th>
<th>Ballot Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1952</td>
<td>3.18</td>
<td>33.9</td>
<td>1.2</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Israel</td>
<td>1949</td>
<td>5.00</td>
<td>22.8</td>
<td>120</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Italy</td>
<td>1946</td>
<td>4.40</td>
<td>25.2</td>
<td>17.9</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Japan</td>
<td>1946</td>
<td>7.72</td>
<td>39.1</td>
<td>8.8</td>
<td>PL</td>
<td>Double</td>
</tr>
<tr>
<td>Korea</td>
<td>1988</td>
<td>3.72</td>
<td>7.4</td>
<td>1</td>
<td>PL</td>
<td>Double</td>
</tr>
<tr>
<td>Latvia</td>
<td>1993</td>
<td>5.31</td>
<td>77</td>
<td>20</td>
<td>PR, T = 4%</td>
<td>Single</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1993</td>
<td>1.62</td>
<td>2.6</td>
<td>1</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1992</td>
<td>3.65</td>
<td>20.3</td>
<td>35.2</td>
<td>Mixed (50.4% PL, 49.6% PR) T = 4%</td>
<td>Double</td>
</tr>
<tr>
<td>Malawi</td>
<td>1994</td>
<td>2.69</td>
<td>0</td>
<td>1</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1990</td>
<td>2.20</td>
<td>13</td>
<td>1.8</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Namibia</td>
<td>1989</td>
<td>2.41</td>
<td>14.1</td>
<td>3.1</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Nepal</td>
<td>1991</td>
<td>3.63</td>
<td>31.2</td>
<td>1</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1990</td>
<td>2.19</td>
<td>5.3</td>
<td>10.2</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1988</td>
<td>2.68</td>
<td>13.2</td>
<td>1</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>Peru</td>
<td>1978</td>
<td>4.77</td>
<td>28.6</td>
<td>100</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Poland</td>
<td>1991</td>
<td>11.22</td>
<td>67.3</td>
<td>10.6</td>
<td>PR</td>
<td>Single</td>
</tr>
<tr>
<td>Portugal</td>
<td>1975</td>
<td>3.62</td>
<td>17.5</td>
<td>11</td>
<td>PR, T = 5%</td>
<td>Single</td>
</tr>
<tr>
<td>Romania</td>
<td>1992</td>
<td>7.07</td>
<td>42.1</td>
<td>8.1</td>
<td>PR, T = 3%</td>
<td>Single</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1990</td>
<td>2.71</td>
<td>12.8</td>
<td>7.3</td>
<td>PR, T = 2.5%</td>
<td>Single</td>
</tr>
<tr>
<td>South Africa</td>
<td>1994</td>
<td>2.25</td>
<td>16</td>
<td>1.99</td>
<td>PR (200 seats nationwide and 200 regional)</td>
<td>Double</td>
</tr>
<tr>
<td>Country</td>
<td>Year</td>
<td>Votes</td>
<td>Seats</td>
<td>PR</td>
<td>PL</td>
<td>Single</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>-------</td>
<td>-------</td>
<td>----</td>
<td>----</td>
<td>----------</td>
</tr>
<tr>
<td>Spain</td>
<td>1977</td>
<td>4.28</td>
<td>34.7</td>
<td>7</td>
<td></td>
<td>PR</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1984</td>
<td>2.95</td>
<td>2.5</td>
<td>5.21</td>
<td></td>
<td>Single, fused</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1946</td>
<td>1.59</td>
<td>11.5</td>
<td>6.96</td>
<td></td>
<td>Single</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1958</td>
<td>2.85</td>
<td>7.5</td>
<td>3.9</td>
<td></td>
<td>Single</td>
</tr>
<tr>
<td>Zambia</td>
<td>1991</td>
<td>1.61</td>
<td>.9</td>
<td>1</td>
<td></td>
<td>PL</td>
</tr>
</tbody>
</table>

Note: PR = proportional representation, PL = plurality, STV = single transferable vote, and mixed = combination of PR and PL.

a. The average district magnitude for countries with mixed electoral systems represents a weighted average of the average district magnitude for the PR and plurality districts.

b. Hungary used a three-tiered electoral system combining 176 single-member districts, 152 PR seats in 20 multimember districts, and 58 national-level seats allocated from the remainders. Because votes from the 152 PR seats and 58 national-level seats were so closely intertwined in calculating seats (see Hibbing & Patterson, 1990), the weighted average aggregates these two PR tiers.
going to parties receiving less than 10% of the national vote. The levels of party fragmentation vary greatly for these elections, even for countries with quite similar electoral systems (e.g., Argentina versus Poland). The mean value for the ENP among the 40 countries listed in Table 1 is 3.84 parties, with a standard deviation of 2.09; on average, 22.2% of the popular vote went to parties with less than 10% of the national vote, but the standard deviation is 18%.

How does one explain the variation in party system fragmentation seen in Table 1? The literature on party system fragmentation stresses two broad, structural sources of party fragmentation: electoral rules and social cleavages. A voluminous body of literature has argued that electoral structure, by affecting the translation of voter preferences into representation, should affect fragmentation by influencing voters’ perceptions of the likelihood that their most preferred candidates or parties will win (Cox, 1997; Duverger, 1954; Taagepera & Shugart, 1989; to name a few). Meanwhile, the social cleavage approach emphasizes how class, religion, ethnicity, and demography shape voters’ preferences before they enter the voting booth (Lipset & Rokkan, 1967). Recent scholarship has tended toward a synthesis of these structural approaches (Amorim Neto & Cox, 1997; Coppedge, 1997; Ordeshook & Shvetsova, 1994).

However the existing literature tends to ignore and/or marginalize founding elections because the structural sources of party fragmentation are generally seen as attenuated, if not overwhelmed, by the fluid context and informational uncertainties surrounding founding elections. Instead the exceptionality of founding elections is emphasized. For example, O’Donnell and Schmitter (1986) see these elections leading to a proliferation of parties and candidacies and conjecture that the source of this proliferation is a “resurrection” of civil society that tends to occur immediately before founding elections, leading to especially high turnout. Cox (1997) argues that these elections are more likely to lead to a proliferation of candidates because voters have poorly formed expectations, creating a context of symmetric competition in which every potential candidate stands an equally good chance at winning a seat. Likewise Taagepera and Shugart (1989) refer to a “shakedown period” for new party systems, which occurs as power relations among the

6. Different measures can be used to gauge support for minor parties. Although I had originally intended to simply count the number of parties receiving more than 1% of the vote, as is done in Ordeshook and Shvetsova (1994), this proved infeasible as vote totals for minor parties were often aggregated at levels much higher than 1% of the popular vote. The substantive results reported later in the article do not change when support for minor parties is measured as the percentage of votes going to parties receiving less than 5% of the vote (although these data are unavailable for a few additional cases in the data set).
parties are clarified and electoral systems exert a squeeze on small parties, forcing them out of subsequent elections.

**FRAGMENTATION IN FOUNDING ELECTIONS: WHY TIMING MATTERS**

Given the emphasis on the exceptionality of founding elections, it is perhaps not surprising that cross-regional empirical studies have been lacking. This is unfortunate because an increasing number of region-specific studies provide a basis for cross-regional generalization. Many of these studies emphasize the link between party fragmentation in new democracies and the democratization process from which parties emerge, rather than the relatively static structural variables that are typically emphasized in explaining party fragmentation. The rationale for this approach to party system development is captured by Przeworski (1991), who points out that democratization involves a fundamental tension between two processes: Antiauthoritarian forces, regardless of their ideological predispositions and personal differences, must initially unite to defeat an authoritarian regime; however they also are in a struggle against each other to secure the best place under democracy.

The contention here is that emerging party systems are born of the conflicting drives to unite and to compete that are intrinsic to the politics of democratization. The relative strength of these conflicting drives is largely a function of the temporal location of emerging party systems within the democratization process. The timing of founding elections is critical because when these elections occur early in the regime transition, they tend to become referenda on the authoritarian regime; by contrast, founding elections that occur late in the transitional process are more likely to incorporate broader policy struggles among social actors concerning the postauthoritarian future. As a result, early and late founding elections engender distinct incentive structures that either facilitate (in the former case) or hinder (in the latter) party coordination. From this view, the variation in party system fragmentation seen in Table 1 reflects the intersection of an electoral event with an ongoing dynamic of group formation and dissolution.

The conjunctural approach elaborated here differs from work on party system development that emphasizes the “unfreezing” of cleavage structures that predate authoritarian rule or the legacies of authoritarian rule in shaping party politics. Instead the emphasis is on the politics of transition and its role in shaping the formation of new cleavage structures. As Pettai and Kreuzer (1999) point out, the translation of cleavage structures into party programs
takes time and cleavages are more likely to be a product of postauthoritarian politics than its driving force. Consistent with this notion, Domínguez and McCann (1995) show that when citizens long governed by the same party are presented with a fairly open election, voting intentions are best predicted by individual evaluations of the ruling party rather than a preexisting cleavage structure. Likewise there is little evidence that cleavage structures in East Central Europe from the precommunist era were brought back to life with the resumption of competitive elections (Lawson, 1999; Rivera, 1996).

How does one conceptualize timing in a founding election? Following Przeworski’s (1991) logic, the fundamental divide within any transitional society is between the opponents and the defenders of the old regime; given this division, party politics are strongly affected by whether founding elections occur before or after an authoritarian regime actually relinquishes executive authority. The transfer of executive authority signals an end to the phase in which party politics revolves primarily around competing evaluations of the old regime—be it a military junta, a patrimonial dictator, a politburo, or a repressive colonizer—and the beginning of a struggle to define the future. Where founding elections occur before this transfer of power, elections are more likely to be a contest between an electoral bloc associated with an opposition movement and a bloc associated with defenders and/or sympathizers of the old regime. Stated somewhat differently, while authoritarian governments remain in power, they provide an electoral focus that is conducive to party coordination; once an authoritarian leadership is removed, coordination becomes more difficult as evaluations of postauthoritarian governments and competing visions for the future remove the tendency toward a bipolar division of electoral forces. Because early and late founding elections engender different coalitional dynamics within emerging party systems, I hypothesize that all things being equal, when founding elections occur before the transfer of executive authority from an authoritarian regime, the level of fragmentation of the national party system will be lower than when founding elections occur after the transfer of executive authority.

The emphasis on the context of founding elections and how this shapes voter judgments suggests that economic conditions should play an important role in founding elections, especially because changes in economic regimes often accompany changes in political regimes. However, theoretically, the relationship between economic conditions and party system fragmentation is ambiguous. An economic crisis could produce consensus that certain reforms are necessary, thus exerting a centralizing effect on party politics; however a crisis could also engender a breakdown in social ties that translates into support for smaller “protest” parties—and higher fragmentation. Lack-
ing more contextual information about how voters and parties interpret a crisis, either scenario is plausible.

I argue that the effect of an economic crisis in a founding election is also mediated by timing: In particular, when founding elections occur late in the process of regime change, an economic crisis is likely to encourage the pluralization of emerging party systems. In tough times, large electoral blocs representing both the old and the new regime are more likely to splinter, fostering the creation of new parties and a scramble to attract the loyalties of an increasingly divided electorate. Founding elections that occur in a context of economic distress are apt to approximate the situation of “symmetric competition” to which Cox (1997) alludes: The declining fortunes of better-known movements—perhaps tainted by association with economic failure—boost the electoral prospects of all other entrants and undermine party coordination. Thus when founding elections occur late within the democratization process—after the transfer of executive authority from the authoritarian regime—economic instability is particularly likely to lead to high levels of fragmentation. Again this hypothesized interaction between crisis and the timing of founding elections is measured in terms of the transfer of executive authority from the authoritarian regime because this event is most likely to signal the end of the bipolar phase of the transition.

Empirical support for the notion that the timing of founding elections matters comes from both East Central Europe and Latin America. For example, Simon (1997) argues that the highest levels of fragmentation in Eastern and Central Europe occurred when founding elections took place after the pluralization of the state and society. Such elections were characterized, according to Simon, by public disenchantment with politics and parties; as a result, parties splintered and were unable to inspire large segments of public support. Simon contrasts such late pluralization to situations in which founding elections occur before society and state institutions have had time to democratize fully (early pluralization) or cases in which democratization of the repressive apparatus of the state institutions is synchronized with party formation and the democratization of civil society (harmonious pluralization). Situations of early or harmonious pluralization are likely to lead to lower party fragmentation because parties revolve more closely around a regime-versus-opposition axis. Likewise Bielasiak (1997) argues that the early stage of party formation in East-Central Europe was dominated by umbrella social movements, encompassing broad segments of public opinion, that united to challenge communist regimes and/or their successor parties; these movements tended to splinter in the postauthoritarian era as the difficult tasks of governance came to the fore.
Not only do late founding elections present greater barriers to party coordination, but a growing body of literature on economic voting suggests that economic crisis unleashes powerful centrifugal forces in newly established party systems. For example, in Latin America, the economic crisis of the 1980s simultaneously undermined support for governing parties and increased electoral volatility. Remmer (1991) and Roberts and Wibbels (1999) show that economic instability caused sharp anti-incumbent vote swings and increased electoral volatility. Mainwaring (1998) argues that Brazil’s astronomically high electoral fragmentation and volatility in the late 1980s can largely be attributed to the electoral demise of the country’s two largest parties in the face of hyperinflation—the same two parties that had been at the forefront of the transition to democratic rule. In East-Central Europe, Pacek (1994) shows that poor macroeconomic conditions depressed voter turnout and increased support for opposition parties and extremist challengers. Similarly, Bunce and Csanadi (1993) propose a causal link between crisis and party fragmentation: They argue that the postliberalization economic crisis in Hungary created unstable support for all parties by reordering the demands emanating from the electorate. Bielasiak (1997) also argues that weak collective political identities and greater party fragmentation were the response to the confusion created by both economic and social upheaval after the fall of communism in East-Central Europe. In short, the preceding research suggests that when economic crisis arises or persists after the departure of an authoritarian regime, voters are likely to be receptive to appeals from forces outside of the established centers of transition politics, such as protest parties or, possibly, antisystem parties.

The approach here focuses on how the political context of founding elections facilitates or hinders party coordination. From this view, the degree of party fragmentation arising from founding elections largely reflects the location of a democratizing society within a transitional continuum (late versus early founding elections) and whether this place is one in which the movements at the forefront of transition politics elicit a sense of effectiveness or disenchantment with electoral politics.

As I argue below, the hypotheses developed here have great importance for party system development because the pattern of party fragmentation that emerges from founding elections is more path dependent than is commonly assumed. Founding elections are likely to be important in the long run for emerging democracies because of the information revealed about the relative electoral strength of competing parties—information that affects the coordination decisions of parties in future electoral rounds. Indeed the persistence of patterns of party fragmentation established in founding elections suggests that these elections constitute critical junctures in the formation of
postauthoritarian cleavage structures. Thus the initial picture of party fragmentation that emerges from a founding election is not likely to be radically altered in subsequent electoral rounds.

MODELS OF PARTY FRAGMENTATION

Hypothesis testing is accomplished via multivariate models of party fragmentation across 40 founding elections using both the ENP and popular support for minor parties as measures of fragmentation. Again, following the case selection criteria previously discussed, an election is considered a founding election if it is a competitive, multiparty election that (a) occurs during a transition from authoritarian to democratic rule, (b) follows at least 10 years of authoritarian rule, and (c) is preceded by the liberalization of party politics. The liberalization of party activity is recorded from the date at which two conditions are met: (a) The right to form political parties independent of the state is explicitly acknowledged by the ruling government, and (b) legal restrictions are removed that prevent the formation of parties representing any significant segment of public opinion.7

HYPOTHESIZED VARIABLES OF INTEREST

Transfer of executive authority from authoritarian regime (transfer). The key event that is captured here is the point at which an authoritarian leader or leadership loses executive power to either (a) an executive elected via competitive elections or by a competitively elected legislature or (b) a transitional leader or leadership, not appointed by the outgoing authoritarian government, that completes a transition to democracy. In some cases, the transfer of executive power may only occur after founding elections and marks the completion of a transition to democracy; in other cases, an authoritarian leader may be replaced before a founding election by a transitional leadership that nonetheless completes a transition to democracy subsequent to the election. However either way, the transfer of executive authority from an authoritarian regime must result in the establishment of democratic rule.

The length of time between founding elections and the transfer of executive authority is coded in months: A score of 0 indicates that the founding

7. These two reforms almost always occur simultaneously, but there are exceptions: In South Korea, new parties were allowed to form in February 1985, but the most prominent opposition politicians remained blacklisted until April 1985. In this case, the liberalization of party activity is coded as occurring only when both conditions are met (in the South Korean case, April 1985).
election occurred before the transfer of executive authority from the preceding regime, whereas a positive number indicates the number of months after the transfer of executive authority that the founding election occurred. Thus the value of TRANSFER has a lower range of 0, indicating an early founding election, and is theoretically unbounded at the upper end: The actual upper bound of transfer within the data set is 50 months, whereas the median value is 2 months. The hypothesized relationship between the two variables is positive, reflecting the heightened incentive toward multipartism when founding elections occur later in the transition process.

Economic crisis (inflation and late election–inf). Studies of economic voting in the advanced industrialized countries use the inflation rate or unemployment rate to measure the impact of macroeconomic conditions on voting behavior. This study uses the inflation rate for two reasons: First, official unemployment figures are not as reliable as inflation in measuring the presence of an economic crisis in the developing world because they mask frequently high levels of structural unemployment. Second, the change in consumer prices is available for a wider range of countries in the data set than unemployment and growth data, which were often only available for the period after the mid 1950s. Therefore I include a measure of the inflation rate in the semester preceding the founding election (inflation), using the percentage change in the consumer price index as published in the International Monetary Fund’s (n.d.) International Financial Statistics. This variable is logged to control for extreme values.

I do not hypothesize an a priori relationship between inflation and fragmentation. As argued previously, the effect of an economic crisis on party fragmentation is ambiguous absent contextual information about how voters interpret the meaning of an economic crisis. However I argue that economic crisis is likely to increase fragmentation of emerging party systems when

8. There is theoretical justification for coding all elections that occur before the transfer of executive authority as 0 because otherwise one would be making a conjecture about how a future event (a transfer that has not yet taken place) affects the present. However to ensure that the data were not effectively censored by this coding, I also ran the regressions in Table 2 coding transfer with negative values (i.e., number of months before the founding election that the transfer occurred). Neither the sign nor the statistical significance of transfer changed appreciably from Table 2 using this coding method.

9. The inflation rate for the two quarters preceding the election period is used because annual figures hide significant fluctuations in inflation that can occur in less than a year, whereas quarterly data may provide too short of a time period (especially because the International Monetary Fund uses a period average in reporting quarterly data). If an election occurred after the midway point of the quarter, I use that quarter’s inflation rate as well as the previous quarter; if it occurred before the midpoint, I use the change in inflation during the previous two quarters.
founding elections occur late. For this purpose, I created a dichotomous variable that takes the value of 1 when the founding election occurred 6 months or more after the transfer of executive authority from the authoritarian regime. The 6-month figure ensures that this measure of the timing of the founding election is congruous with the measure of economic conditions (inflation), which is also lagged 6 months. This dichotomous variable is then multiplied by the logged inflation rate, creating the late election − inf variable, which measures the effect of inflation on party fragmentation when founding elections occur 6 months or more after the transfer of power from the authoritarian government (it is coded as 0 for all other elections). This relationship is hypothesized to be positive. Note that a dichotomous variable must be used for late elections because simply multiplying the inflation rate by transfer would create an uninterpretable variable: The resulting variable would not distinguish situations of high inflation and early founding elections from situations of low inflation and late founding elections.

ADDITIONAL INDEPENDENT VARIABLES

To control for the manner in which the proportionality of electoral systems encourages or discourages fragmentation, additional variables are included to measure the effect of district magnitude, ballot structure, and presidential elections.

Average district magnitude (ADM). District magnitude is a crucial factor in explaining party fragmentation. Although I tested many different measures to control for differences in district size, ultimately, the simplest measure, ADM, provided the best fit to the data. Following the norm in the party system literature, the functional relationship between district magnitude and fragmentation is posited to be logarithmic, reflecting the diminished positive effect on fragmentation as district magnitude increases. The use of any single

10. For example, an election that occurs 20 months after the transfer of executive authority and in which the inflation rate for the two quarters preceding the election was 1% would be indistinguishable from an election that occurred 1 month after the transfer of executive authority and in which the inflation rate was 20% in the preceding two quarters.

11. I attempted to control for the differences in district magnitude by Taagepera’s (1998) “effective district size,” a weighted average that accounts for differences in magnitude across districts. This measure was not statistically significant in any of the equations. I also computed the district magnitude of the median legislator and “effective district magnitude,” which is measured as .75 / (T+1), where T is the threshold, but neither measure was statistically significant. Finally, I tested for the effect of legal thresholds (shown in Table 1) but found that these had no significant effect in any of the equations, which may partially reflect the fact that legal thresholds affect smaller parties, whereas the ENP is weighted toward the largest parties.
measure of the effect of district magnitude for national-level data warrants caution, both because most countries are composed of multiple electoral districts of unequal size and because most hypotheses about the effects of district magnitude are made in terms of district-level results rather than votes aggregated at the national level (Gaines, 1997; Taagepera, 1998). Of course, in a perfect world, district-level data would be more widely available; however whether a nation composed of $n$ single-member plurality districts produces a two-party system at the national level or a $2n$-party system is also a theoretical issue—a function of the degree to which parties choose to coordinate across electoral districts—which is precisely the focus of this study.

Ballot structure (double and fused). In some electoral systems, voters are presented with a single ballot in which to express their party preferences, whereas other systems create a double ballot in which voters can cast two separate votes. Such double-ballot systems can be expected to heighten party fragmentation by allowing voters to engage in split-ticket voting. Thus the variable double controls for double-ballot systems and is expected to be positively related to fragmentation.

By contrast, some electoral systems inhibit party fragmentation by making voters use a single ballot that is then used to award positions for various elective offices (for example, using a single ballot to determine the winners of both presidential and legislative elections or, as in Brazil in 1982, to determine the winners of congressional, gubernatorial, and state legislative elections). Such “fused” ballots encourage party centralization by prohibiting split-ticket voting. Thus the variable fused is posited to negatively affect party fragmentation. Although alternative measures of ballot structure were tested in the models, the variables double and fused consistently performed better in explaining the effects of ballot structure on fragmentation.12

Presidential elections (proximity and proxpres). There is ample theoretical and empirical evidence that presidential elections affect legislative party fragmentation (Amorim Neto & Cox, 1997; Jones, 1994; Lijphart, 1994). I borrow Amorim Neto and Cox’s method for capturing the effect of presidential elections (proximity and proxpres). There is ample theoretical and empirical evidence that presidential elections affect legislative party fragmentation (Amorim Neto & Cox, 1997; Jones, 1994; Lijphart, 1994). I borrow Amorim Neto and Cox’s method for capturing the effect of presidential elections (proximity and proxpres) and the variable proxpres. This variable had a positive but statistically insignificant effect on fragmentation. Shvetsova (1999) argues for a finer distinction among tiered electoral systems, suggesting that disconnected tiers (where votes from each tier are completely independent) within hybrid systems are more likely to increase fragmentation than are connected tiers (votes from one tier are considered in awarding seats in another tier). However I found no such effect in the data.

12 Following Amorim Neto and Cox (1997), I measured the percentage of total seats relegated to secondary or tertiary tiers (e.g., systems in which parties can aggregate “unused” votes at a lower level in subsequent rounds of seat distribution). This variable had a positive but statistically insignificant effect on fragmentation. Shvetsova (1999) argues for a finer distinction among tiered electoral systems, suggesting that disconnected tiers (where votes from each tier are completely independent) within hybrid systems are more likely to increase fragmentation than are connected tiers (votes from one tier are considered in awarding seats in another tier). However I found no such effect in the data.
tial elections on general elections, which posits two routes by which presidential elections affect fragmentation. First, the effect should partially be a function of the closeness of presidential elections to legislative elections. All things being equal, one would expect that presidential elections held concurrently with or very close to legislative elections would have more of a tendency to “nationalize” elections, thereby reducing fragmentation. The variable proximity measures the closeness of presidential elections to legislative elections as

\[ \text{PROXIMITY} = 2 \times | \text{elapsed} - 0.5 | \]

where elapsed refers to the percentage of the presidential electoral cycle (measured in months) that has elapsed between the presidential term and the legislative election. Proximity is thus a 0 to 1 continuous variable in which concurrent legislative-presidential elections receive a score of 1, whereas midterm legislative elections, which are temporally farthest from presidential elections, receive a score of 0. Proximity is hypothesized to have a negative effect on party fragmentation.

Second, the effect of presidential elections on party system fragmentation should be a function of the effective number of presidential candidates competing; the fewer candidates competing in the presidential race, the greater the centralizing effect. Therefore I also include the variable \( \text{enpres} \), the effective number of presidential candidates, which is computed as \( 1 / \sum p_i^2 \) where \( p_i \) is the percentage of the popular vote received by each presidential candidate (this variable is multiplied by the proximity of the election). As in Amorim Neto and Cox (1997), I assume that the influence of presidential elections goes primarily from executive to legislative elections and therefore do not use a simultaneous equations model.

To conclude, the effect of the timing of founding elections is incorporated into baseline models that capture the effects of district magnitude (ADM), the presence of a double or fused ballot structure (double and fused), and the effect of the timing of presidential elections (proximity) and the effective number of presidential candidates (enpres). Although I tested for the effects of several other variables that have been posited to affect party fragmentation (and some that have not), none of these exhibited a significant effect on frag-

13. The presidential elections included Argentina, Benin, Brazil (1945), Chile, Ecuador, Korea, Malawi, Nicaragua, Poland, Romania, Slovenia, Uruguay, Venezuela (1958), and Zambia. The effect of presidential elections in several other countries with presidential systems is not measured because presidential elections occurred after the founding election.
mentation. Given the need to preserve degrees of freedom in a relatively small data set, I did not include these variables.

RESULTS AND DIAGNOSTICS

Are emerging party systems more fragmented when founding elections occur earlier rather than later in the course of democratization? Models 1 and 2 in Table 2 suggest that the timing of founding elections is indeed an important factor in explaining party system fragmentation. In Models 1 and 2, all variables are correctly signed. More important, the variable measuring the timing of the founding election (transfer) is significant beyond the $p = .01$ level in both models. The parameter estimate for transfer suggests that for every month following the transfer of executive authority, the ENP increases by .06 parties in founding elections (Model 1), whereas the share of the vote going to parties with less than 10% national support increases by 1% (Model 2). Thus both models support the notion that the timing of a founding election relative to the process of regime transition affects party fragmentation. The results suggest that the timing of a founding election has a stronger substantive impact on support for minor parties. For example, a founding election held 1 year after the transfer of executive authority will result in an increase of .72 effective parties compared with an election held before the transfer of executive power; however the share of the vote going to minor parties (those polling less than 10% of the vote) increases substantially—by 12% of the national vote—compared with the earlier founding election.

Models 3 and 4 incorporate the impact of economic voting on founding elections. As previously argued, although the effect of economic instability on party fragmentation is generally ambiguous, an economic crisis occurring after the transfer of executive power is likely to encourage the dissolution of

14. In particular, I tested for the effect of ethnic fragmentation upon party fragmentation via two variables: Following Ordeshook and Shivetzova (1994) and Amorim Neto and Cox (1997), I included a measure of the effective number of ethnic groups, measured as $1 / \sum g_i^2$, where $g_i$ is the percentage of the population belonging to each ethnic group. This variable was positive but not statistically significant. I also did not find an interactive effect between ethnic fragmentation and district magnitude. As an alternative measure of ethnic fragmentation, I also measured the effective number of linguistic groups, substituting the percentage of each major linguistic group in the previous equation. Contrary to theoretical expectations, this measure yielded a negative but statistically insignificant coefficient. I also tested various demographic measures, including country population, percentage of the population living in urban areas, and number of cities with populations greater than 500,000 and 1 million inhabitants.

15. The sample size is 39 in Model 2 because the total vote going to parties with less than 10% of the vote was unavailable for Estonia.
both opposition- and regime-based movements, fostering the decentralization of the party system. This hypothesis is tested by including variables measuring the inflation rate in the two quarters preceding the election for all elections (inflation) as well as the inflation rate in the semester preceding elections for late founding elections (late election−inf). In both Models 3 and 4, the inflation rate (inflation), for which no directional relationship is hypothesized, is negative and statistically insignificant; the inflation rate was not a significant predictor of fragmentation when placed in Models 1 and 2.17

16. The inflation rate in the 6 months prior to the founding election was not available for Estonia, Bulgaria, and Mongolia in Models 3 and 4.

17. When placed in Model 1, the parameter estimate for inflation is −.02 (T-score of −.09), whereas in Model 2, its parameter estimate is .002 (T-score = .10). There was no evidence that collinearity with other independent variables inflated the standard error of inflation.
The parameter estimates for both transfer and late election–inf are both positive (as predicted), although not statistically significant. However transfer is highly collinear with late election–inf: Statistically, the two variables are strongly correlated ($r = .56$, $p = .0003$), and an auxiliary regression of late election–inf on all other variables and the dependent variable yielded an $R^2$ of .68 and .66 in Models 3 and 4, respectively, which also suggests high collinearity. In spite of the inflation of standard errors that occurs under situations of high collinearity, joint $F$ tests still allow one to test the significance of subvectors of parameters (Greene, 1997). Indeed the joint $F$ test (shown at the bottom of Table 2) shows that transfer and late election–inf are highly significant in both Models 3 and 4. The $F$ statistic of 5.10 in Model 3 ($p = .013$) and 6.28 in Model 4 ($p = .006$) suggest that both variables add significant explanatory power in comparison with a “restricted” model in which these two variables are absent. Thus the results are consistent with the hypothesis that inflation does not have a global effect on fragmentation but encourages higher fragmentation when founding elections occur late within the transitional process.

The practical implications of the results in Models 3 and 4 are more easily grasped by again comparing two hypothetical founding elections, one occurring before the transfer of executive authority and the other occurring a year after the transfer of executive authority. Assuming that the inflation rate in the 6 months preceding both of these elections is the same (say, the median value in the sample or 12.2%), the parameter estimates suggest that the ENP will be 1.48 parties higher in the election occurring a year after the transfer of executive authority in comparison with the earlier election; meanwhile the share of the popular vote going to minor parties (those with less than 10% of the national vote) will increase by 13.9% of the national vote in the later election. These results suggest that the centrifugal effect of a late founding election on party systems increases with economic instability.

Two concerns seem especially salient in analyzing these results. First, given the relatively small sample size, how robust are the results? Second, are founding elections anomalous compared with subsequent elections? To test

18. This difference is obtained by computing $b_1(\text{log}\_\text{inflation} \times \text{late election}) + b_2(\text{inflation}) + b_3(\text{transfer})$ for both elections.

19. The issue of endogeneity may be an additional concern. Specifically, is the timing of the founding election somehow a function of the number of parties that exists before the election? Theoretically, I can think of no systematic mechanism, across the 40 cases, by which the number of parties influences the timing of the founding elections. However using data on the number of parties that actually ran candidates (which I found for 33 of the 40 elections), I found no evidence that the initial distribution of parties influences timing. The number of parties that ran candidates is not significantly related to the timing variable ($r = .18, p = .32$), and it does not predict the timing of the election in a regression equation ($b = .08, t = 1.01$).
the robustness of the results, Models 1 through 4 are recalculated in Table 3 using a bounded influence regression. Bounded influence estimation dampens the influence of outliers through weighted least squares regression, with weights determined by the DFFITS value derived from the original ordinary least squares regression.20 Note that the coefficients in Models 1 through 4 of Table 3 are roughly in line with their ordinary least squares counterparts in Table 2, with the T-scores for TRANSFER remaining significant beyond the \( p = .01 \) level in Models 1 and 2. In Models 3 and 4, it must again be borne in mind that late election−inf and transfer are highly collinear; however, the joint \( F \) test again shows that these two variables are highly significant within the bounded influence regression (\( F = 6.02, p = .007 \) in Model 3 and \( F = 5.13, p = .013 \) in Model 4).

The second set of models in Table 3 examines the sensitivity of Models 1 through 4 to one significant outlier: Poland, which exhibited the highest level of party fragmentation of any case in the data set, had studentized residuals consistently above 2.0. Thus the last four equations of Table 3 are recalculations of Models 1 through 4, with a dummy variable inserted for Poland. Again the coefficients and standard errors for the timing variables are quite stable in comparison with the results of the ordinary least squares equations and the bounded influence regression, whereas the joint \( F \) tests suggest that both the timing of the founding election and the variable measuring the inflation rate for late founding elections are significant within Models 3 and 4. In short, the reanalysis in Table 3 offers no evidence that the results are the product of one, or a few, deviant cases.

Could these results simply be an artifact of anomalous founding elections? As previously mentioned, some argue that founding elections are likely to lead to a proliferation of parties seeking to establish their electoral viability for future rounds (Cox, 1997), perhaps driven by increased voter turnout in the face of the revival of civil society (O’Donnell & Schmitter, 1986). However others suggest that fragmentation will actually be lower in founding elections than in subsequent elections as umbrella groups splinter into competing factions (Bielskiak, 1997). Either way, the existing literature suggests that levels of fragmentation will fluctuate significantly between founding elections and subsequent electoral rounds.

However, theoretically, there are compelling reasons to believe that fragmentation will not differ dramatically between founding elections and subsequent elections. First, because founding elections provide voters with crucial

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20. The weights are 1 where the absolute value of the DFFITS score \( \leq .34 \) and \( .34/|\text{DFFITS}| \), where the absolute value of DFFITS > .34. The cutoff of .34 provides 95% asymptotic efficiency. See Welsch (1980).
### Table 3
Robustness of Models

<table>
<thead>
<tr>
<th></th>
<th>Bounded Influence Regression</th>
<th>Dummy Variable for Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1a Model 2 Model 3 Model 4</td>
<td>Model 1 Model 2 Model 3 Model 4</td>
</tr>
<tr>
<td>Intercept</td>
<td>2.13 (5.18)*** 0.12 (2.83)*** 2.30 (4.60)*** 0.12 (2.56)***</td>
<td>2.05 (4.35)*** 0.10 (1.96)* 2.44 (4.01)*** 0.12 (1.81)*</td>
</tr>
<tr>
<td>ADM</td>
<td>0.49 (2.90)*** 0.03 (1.93)* 0.45 (2.59)** 0.02 (1.33)</td>
<td>0.52 (2.73)*** 0.04 (2.02)* 0.49 (2.25)** 0.04 (1.55)</td>
</tr>
<tr>
<td>Double</td>
<td>0.87 (1.38) 0.04 (0.81) 0.50 (0.76) 0.008 (0.06)</td>
<td>1.14 (1.93)* 0.04 (0.58) 0.81 (1.21) 0.01 (0.15)</td>
</tr>
<tr>
<td>Fused</td>
<td>–1.18 (–1.65) –0.16 (–2.15)** –1.43 (–1.98)* –18 (–2.17)**</td>
<td>–1.06 (–1.24) –0.150 (–1.69) –1.04 (–1.17) –15 (–1.55)</td>
</tr>
<tr>
<td>Proximity</td>
<td>–5.23 (–2.33)** –0.36 (–1.90)* –5.69 (–2.50)** –0.46 (–2.05)**</td>
<td>–2.91 (–1.47) –0.20 (–0.97) –2.44 (–1.09) –0.16 (–0.67)</td>
</tr>
<tr>
<td>Proxpres</td>
<td>2.23 (2.61)** 0.13 (1.75)* 2.53 (2.72)*** 0.16 (1.98)*</td>
<td>1.36 (1.83)* 0.07 (0.93) 1.37 (1.64) 0.07 (0.75)</td>
</tr>
<tr>
<td>Transfer</td>
<td>0.06 (3.14)*** 0.01 (3.15)*** 0.01 (0.46) 0.003 (1.23)</td>
<td>0.05 (3.05)*** 0.01 (3.62)*** 0.03 (1.14) 0.005 (1.91)*</td>
</tr>
<tr>
<td>Inflation</td>
<td>–0.07 (–0.18) 0.004 (0.26)</td>
<td>–0.22 (–0.18) –0.01 (0.26)</td>
</tr>
<tr>
<td>Late election–inf</td>
<td>0.46 (2.11)*** 0.03 (1.47)</td>
<td>0.37 (1.58) 0.02 (0.97)</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.50 (2.11)** 0.47 (1.47) 0.61 (1.54) 0.54 (1.58)</td>
<td>0.63 (0.68) 0.52 (0.53)</td>
</tr>
<tr>
<td>Joint $F$ test, late</td>
<td>6.02 (0.007) 5.13 (0.013)</td>
<td>5.50 (0.009) 6.24 (0.006)</td>
</tr>
<tr>
<td>election–inf, and</td>
<td>transfer</td>
<td></td>
</tr>
</tbody>
</table>

Note: ADM = average district magnitude.

a. Parameter ($t$-ratio).

*p < .10. **p < .05. ***p < .01, two-tailed.
information about the relative electoral strength of various parties, the results are likely to influence the strategic calculations of voters in subsequent rounds: Party support in founding elections—especially for larger parties—is likely to influence support in subsequent elections. This suggests that the ENP (i.e., party fragmentation weighted by popular support) is not likely to change dramatically. Second, electoral inequalities arising from founding elections may be reinforced because winners can use public office to shore up electoral support or shape the rules of the game (including electoral rules) to strengthen their position in future rounds.

Too few countries in the data set have a sufficiently long series of elections under the same electoral system to allow for multivariate testing of change over time. This is especially a problem in the former Soviet bloc countries, where comparisons between founding elections and subsequent elections are hampered by the frequency with which electoral systems were overhauled in between elections. However, Table 4 shows the change in ENP for those 18 countries in the data set that had at least three consecutive elections under roughly the same electoral system (thus largely controlling for the effects of electoral structure). Both the ENP and support for minor parties are slightly higher in second and third elections compared with founding elections. However, these differences are slight. Paired t tests for both variables suggest that party fragmentation is actually quite persistent between founding elections and the subsequent two elections; the null hypothesis of zero difference cannot be rejected for either measure of fragmentation. Clearly, a definitive conclusion awaits further testing with a larger set of cases. However, these results suggest that there is little basis for the claim that the outcome of founding elections is somehow exceptional when compared with subsequent elections.

CONCLUSION

This article has argued that party coordination in founding elections can be usefully understood by placing these elections in context: Founding elections capture emerging party systems somewhere between an all-encompassing debate about the authoritarian past and an uncertain pluralistic future in which there are winners and losers. Party fragmentation reflects the tensions inherent in this political transformation from authoritarianism to democracy.

21. The countries included in the analysis in Table 4 are Argentina, Austria, Brazil, Chile, Czechoslovakia, Colombia, Ecuador, Germany, Greece, Hungary, India, Israel, Italy, Portugal, South Korea, Spain, Uruguay, and Venezuela. The data on support for minor parties were unavailable for Brazil, hence the lower n for that variable in Table 4.
The timing of founding elections is crucial in the formation of a party system because it affects the dimensions of electoral conflict and thus the incentives toward the coordination of electoral programs.

The results in this article have shown that the transfer of executive authority from the outgoing authoritarian regime constitutes a focal point in the process of party formation and coordination. Furthermore, the broad outlines of a party system established in founding elections, in terms of fragmentation, are not likely to change dramatically in subsequent elections. In short, the tendency to marginalize founding elections ignores useful information about the origins of party systems. Naturally, more work remains in understanding how founding elections shape the trajectories of emerging party systems. In particular, the issue of the stability of party fragmentation arising from founding elections warrants greater attention. This study suggests that patterns of fragmentation arising from founding elections are more persistent than previously thought; however, future research might address how the timing of founding elections affects the stability of party systems across subsequent elections. Does the timing of founding elections affect the degree of electoral volatility in subsequent rounds? Are later elections likely to engender more or less stability than early founding elections? How important is subsequent innovation in electoral institutions for patterns of party fragmentation in second and third democratic elections? At the very least, the findings here reinforce the need to go beyond existing structural frameworks in addressing these concerns and to pay closer attention to the dynamic political context in which party systems develop.

Table 4
Change in Party Fragmentation During First Three Elections in 18 Democracies

<table>
<thead>
<tr>
<th></th>
<th>Effective Number of Parties</th>
<th>% Vote to Minor Parties (less than 10% of national vote)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founding election</td>
<td>Mean = 3.68</td>
<td>Mean = 19.1%</td>
</tr>
<tr>
<td>Compared with paired t tests (H₀: difference = 0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second election</td>
<td>Mean = 3.97</td>
<td>Mean = 19.7%</td>
</tr>
<tr>
<td></td>
<td>( t = -.92 )</td>
<td>( t = -23 )</td>
</tr>
<tr>
<td></td>
<td>( (p = .37) )</td>
<td>( (p = .82) )</td>
</tr>
<tr>
<td>Third election</td>
<td>Mean = 4.39</td>
<td>Mean = 22%</td>
</tr>
<tr>
<td></td>
<td>( t = -1.21 )</td>
<td>( t = -1.07 )</td>
</tr>
<tr>
<td></td>
<td>( (p = .24) )</td>
<td>( (p = .30) )</td>
</tr>
</tbody>
</table>
APPENDIX

Data Sources

Voting and electoral data: The data on effective number of parties in founding elections, effective number of presidential elections, and electoral structure is drawn from Electoral Studies, Cox (1997), Shvetsova (1999), the International Institute for Democracy and Electoral Assistance (1997), and the Lijphart Election Archive (http://www.dodgson.ucsd.edu/lij). The following were also used.

 **Latin America:** Nohlen (1993).
 **Austria:** Bundesministerium für Inneres, Die Nationalratswahlen (1945).
 **Estonia:** Ishiyama (1993).
 **Greece:** Penniman (1981).
 **Hungary:** Hibbing and Patterson (1992).
 **India:** Singh and Bose (1984).
 **Italy:** Ghini (1968).
 **Mongolia:** Sanders (1990a, 1990b).
 **Portugal:** Gaspar and Vitorino (1976).
 **Slovenia:** Andrejovich (1990).

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BOOK REVIEWS


Andrew Barnes, Kent State University

Juliet Johnson’s *A Fistful of Rubles* is an impressive example of empirical research and graceful writing on a subject of central importance to postcommunist studies. Through her investigation of the evolution of the Russian banking system from 1987 to 1998, Johnson explores the broader question of how institutional change occurs in a postcommunist country. Her central argument in this regard is that such change never begins from a tabula rasa, even in the wake of regime collapse, and policies that presume it does are doomed to fail. Based on an enormous array of interviews, primary documents, and secondary sources, she examines the interaction of institutional legacies and policy choices in four areas: the liberalization of the Soviet banking system, the creation of the Russian Central Bank, the evolution of banking at the regional level, and the convulsions of Russia’s private banking sector. She uses this data both to make her institutional argument and to reshape our understanding of the post-Soviet Russian historical record.

In Chapter 2, Johnson gives a detailed account of the integral yet rarely discussed role the banking sector and its reforms played in the breakdown of the Soviet Union. In the late Soviet context—with its political patronage networks, center-republican conflict, unprofitable enterprise sector, and nonmarket legal system—banking deregulation from 1987 to 1990 fuelled economic decline, as the newly autonomous sector became a parasite on the state and economy. In addition, the successful attempt by union-republic governments to take control of their central banks fundamentally shifted the balance of power in the Union of Soviet Socialist Republics toward the republics. Thus part of the reason the Soviet Union broke up as it did—in 1991 and not earlier or later, and along every union-republic border but no others—is that banking liberalization interacted with Soviet institutions in perverse ways. It is important to note that Johnson does not take these results as support for the notion that the Soviet Union’s reform efforts were “half measures” that should have been more comprehensive and rapid. Here and throughout the book, she argues that there are always institutional legacies that will distort the outcomes of policies—however extensive—that focus most of their attention on destroying old structures.

Chapter 3 examines the development of the Central Bank of Russia, carefully blending an enormous amount of information about the operation of the Central Bank of Russia with a Central Bank of Russia institutional argument. In the process, Johnson debunks a widely held myth that the Central Bank of Russia’s loose monetary policies were the result of its capture by a profligate legislature. Indeed she shows that the
Central Bank of Russia in the early 1990s “compared favorably with the German Bundesbank” (p. 67) on many standard measures of central bank independence and was so autonomous in practice that it “introduced a new currency without informing the Ministry of Finance or parliament, . . . introduced an unpopular payments system, . . . and printed money almost at will” (p. 73). It was thus not political capture but rather Soviet legacies that prevented the bank from pursuing tight monetary policies in the early 1990s. In particular, 14 other central banks could print rubles, the Central Bank of Russia’s administration was more committed to supporting industry than controlling inflation, its staff was unfamiliar with central banking activities in a market economy, and an archaic payments system exacerbated the tendency of enterprises to lend each other money without restraint. This perspective helps us understand why the Central Bank of Russia did not begin tightening monetary policy significantly until late 1993 (when, ironically, it began to lose autonomy): It was only then that the bank began to overcome some of these institutional legacies.

Johnson explores the development of Russian regional banking in Chapter 5. Her puzzle here is why liberalization so quickly created a banking sector that was heavily concentrated in Moscow when there was obviously a strong demand for financial resources in the regions. According to Johnson, market-based explanations such as access to qualified labor, good clients, and advanced technology cannot adequately account for this outcome. Institutional legacies (especially the close ties between regional banks and local enterprises) combined with policy decisions to accelerate the process. When the Russian attempt at shock therapy devastated the real enterprise sector, it hit the regional banks harder than their Moscow counterparts, which also enjoyed easier access to speculative opportunities.

Regional banks, however, can still play key roles in the political economy of their localities. This chapter will therefore also be valuable for its examination of the rise of municipal banks and of the interaction between state and finance at the regional level (a relationship that is often quite different from the one between Moscow-based banks and the federal government). As interest in Russia’s regions and center-regional relations continues to grow, this chapter will provide a foundation for future research.

The book may be most widely read for its account of the saga of the Moscow-based commercial banking sector, and Chapters 4, 6, and 7 add to our empirical knowledge of this subject while presenting an institutionally focused explanation for the changes. In Chapter 4, for example, Johnson provides tremendous detail on the banks’ withdrawal from lending to enterprises, consumers’ travails in the retail-banking sector (including pyramid schemes), the participation of bankers in formal politics, the role of “authorized banks” in the Russian political economy, and the rise of criminal activity both by and against banks. In the process, she shows how the lax regulatory environment discussed earlier combined with shock therapy and its aftermath to deepen the banking sector’s reliance on speculative financial activities and political maneuverings for its survival from 1992 to 1995.

Chapter 6 takes this analysis further, examining how this new institutional context interacted with policy choices in the mid 1990s to create the infamous financial-
industrial “oligarchy” in Russia. As the Russian government, with approval from the International Monetary Fund and others, sought to privatize more state-owned assets and cover its budget deficit in a noninflationary manner, it turned to the politically connected banks. The results were a near giveaway of natural-resource-exporting firms and an increasing reliance on high-interest government bonds to finance the deficit. Johnson’s account of how this process played out and who benefited from it is the clearest and most extensive available. Furthermore by placing this period (1996-1998) in the context of institutional change in the late 1980s and early 1990s, Johnson gives a more structurally grounded explanation of what made the oligarchs possible than is available elsewhere in the literature.

Finally, in Chapter 7, Johnson uses that structural perspective to analyze the 1998 financial crisis and its aftermath. Again assembling new empirical data, she highlights the shifting institutional context that eventually made the default politically possible. In particular, she shows how Western banks entered the short-term treasury bill (GKO) market, the big Russian banks began to fight with each other, and ties between the Russian state and banks weakened after the 1996 reelection of Boris Yeltsin. The chapter concludes with an initial examination of the massive reshuffling of assets that began after the crash.

As with any book, there are imperfections here that will irk some readers. Critics on the left, for example, will chafe at the apparent assumption that an Anglo-American-style banking system should be the goal of banking reform. Johnson criticizes the means of marketization in Russia, but others may wish to examine more critically the end itself. Those on the right, meanwhile, will wonder whether the West had as much influence in the transformation of the Russian banking sector as Johnson suggests. Notes 27 and 30 in chapter 1 spell out the scholarly arguments she is challenging, but later references to “Western-inspired policy choices” are not as focused, which unduly weakens Johnson’s criticism of practitioners.

In addition, the effort to tie this study of banking reform to the question of political democratization may be more distracting than it is helpful. There is not much reason to think that reforming a banking sector—whether creating an anti-inflationary central bank, developing private financial institutions that lend for the long term, or establishing a reliable household savings network—would contribute significantly to the development of democratic politics. The book’s periodic juxtaposition of the sins of the banking sector with the sclerosis of Russian democracy may therefore simply foster the conflation of democratization and marketization in Western scholarship and policy making.

The book’s main theoretical contribution is to the understanding of institutional change, and here it does an unassailable job of showing that such transformation is much more complicated than most scholars and advisors imagined in the 1990s. It is less successful, however, in giving an organized picture of that complexity. Many readers, for example, will be frustrated by the following sentence on why the rise of financial-industrial groups did not provide the impetus for broader economic recovery in Russia:
Public distrust, a lack of structural economic reform, political instability, imprudent investment policies, shortsighted protectionism, greed, corruption, legal insufficiencies, and financial inadequacies, among other factors, stood in the way of bank-led FIGs [financial-industrial groups] becoming powerful, lasting, positive forces for Russian economic recovery” (p. 199).

One wants to know more precisely which legacies and which policy choices were important at which times and why. Further clarifying those causal links, however, will probably require additional studies of similar depth and perception to allow informed comparison with financial sectors in other postcommunist countries.

Such criticisms notwithstanding, this work is essential reading for scholars and policy makers concerned with the transformation of postcommunist political economies. And any future studies of the Russian financial system will have to begin with this book.


Jodi S. Finkel, Loyola Marymount University.

In Audacious Reforms, Merilee Grindle explores the issues of institutional innovation and political decentralization in Latin America. Specifically, she investigates institutional reforms in Venezuela, Bolivia, and Argentina between 1989 and 1994 in which political leaders willfully relinquished control over patronage and resource distribution and reversed their countries’ historic trends toward increasing political centralization. The reforms in Venezuela and Bolivia allowed for direct election of governors, mayors, and municipal councils and stipulated that a minimum percentage of the national budget be allocated to state and local governments. In Argentina, unlike in the other two cases, decentralization was much more narrowly defined and only affected the capital city. It established the direct election of the mayor (itendente) of Buenos Aires and created a municipal legislature for the capital city, whose seats would also be publicly contested. In all three countries, previously these local political positions either did not exist or were filled at the discretion of the ruling party. Thus in each instance of institutional innovation, politicians at the center deliberately distributed power downward to state and local levels, thereby diluting their own authority.

Political development in Venezuela, Bolivia, and Argentina had long been characterized by a trajectory of increasing centralization of power, executive dominance in politics, patronage-centered parties, and allocation of government resources for electoral advantage. Hence these reforms represent the antithesis of traditional politics in the three countries. Of more interest to political scientists, the reforms run counter to standard assumptions of political behavior in which politicians are expected to seek to
increase or, at a minimum, preserve their political power. Grindle attempts to address this puzzle by asking three specific questions: Why would rational politicians choose to give up power? What accounts for the selection of some institutions rather than others? How does the introduction of new institutions alter the nature of political interactions? Grindle’s investigation of the particular reform experiences of Venezuela, Bolivia, and Argentina is an attempt to gain a broader understanding of institutional creation in democratic settings more generally.

To answer these questions, Grindle seeks to determine the usefulness of two competing theoretical approaches to the study of politics. The two approaches, rational choice rooted in microeconomics and comparative institutionalism rooted in sociology, are outlined in chapter 2. From each of these approaches Grindle develops several hypotheses and systematically tests their ability to explain the three questions she poses regarding institutional reform. The hypotheses drawn from rational choice explain institutional innovation and creation as a result of individuals’ calculations of electoral advantages; those from comparative institutionalism predict that institutional changes result from pressure placed on politicians by mobilized groups and interests in society. The theory section is well developed, but the chapter may be slow for those who are already well acquainted with the two approaches.

The case studies on Venezuela, Bolivia, and Argentina are each richly detailed and meticulously reported. In chapters 3, 5, and 7, Grindle addresses the initial decision to cede power and the choice of the particular institutional reform undertaken in the three countries, respectively. Each case study begins with an excellent summary of the country’s historical political development and its political situation at the time of the reform. Each then provides an in-depth discussion of the motivations of the salient political players and of the elite design teams (small, independent working groups composed of upper echelon politicians and academics) instrumental in developing the specific parameters of each country’s reform. In chapters 4, 6, and 8, Grindle discusses the consequences of institutional reform on political behavior in each country. These chapters thoroughly document the changing strategies adopted by individual political actors, new entrants in the political arena, and the traditional political parties.

Grindle argues that neither rational choice nor comparative institutionalism provide robust explanations for the decision to engage in reform (her first question) or for the specific details of the types of reforms chosen (her second question.) Dissatisfied with the explanatory power of these two standard approaches, Grindle emphasizes the importance of individual politicians and specialized elite design teams in the push for decentralizing reforms. She concludes that individual political leaders chose to pursue these institutional reforms because they were concerned with a crisis of legitimacy in their country and that elite design teams were crucial in framing the set of potential institutional changes and developing the details of the reforms.

Grindle argues that the standard approaches do not predict outcomes in either Venezuela or Bolivia and convincingly demonstrates this in the case studies. She also maintains that neither approach is sufficient to explain political decentralization in Argentina. However I would hold that a rational choice does provide a compelling explanation for Argentina’s reform. That country’s 1994 reform was part of a larger
The process of institutional trades included in a constitutional reform pact between the country’s two main parties. The incumbent president obtained the right to reelection and, in exchange, agreed to the establishment of increased constitutional constraints on presidential power, including the direct election of political offices in Buenos Aires, which were demanded by the opposition party as a condition to their support for the new constitution. The leader of the main opposition party correctly believed his party would win the Buenos Aires mayoralty in a competitive election, a post that had previously been appointed by the president, and thereby increase the amount of political power controlled by his party.

The Argentine point aside, Grindle does show that neither rational choice nor comparative institutionalism can predict outcomes across all three cases. She does demonstrate that individual politicians and design teams played a significant role in all three countries. Readers, however, may be left feeling somewhat unsatisfied with the alternative explanation offered because of its uncertain predictive power. For example, at what point will individual political elites perceive that the country’s crisis of legitimacy requires them to cede power? When will design teams offer political decentralization instead of some other remedy to surmount the country’s political problems? One contribution of Grindle’s research is to highlight the need to better develop our understanding of individual leadership and statecraft. Although Grindle clearly demonstrates the importance of these two variables in the case studies discussed, her presentation of generalizable insights with respect to leadership and statecraft would benefit from further development.

With respect to Grindle’s third question, regarding the consequences of decentralization on political interaction, she shows that rational choice can effectively explain the behavior of politicians in the postreform period. In response to the reform, politicians in all three countries altered their electoral strategies to take advantage of the new rules of the game. The three cases present a fascinating study of how politicians respond to new incentives and how new institutional structures affect electoral campaigns and political careers. In both Venezuela and Bolivia, electoral contests at the state and local level focused on issues within their territorial boundaries, such as the provision of local services, rather than national issues, such as neoliberal economic reforms. In Venezuela, traditional party leaders found it necessary to return to state and local offices to improve their electability for higher level political offices and innovative leaders with fresh ideas were rewarded at the ballot box. In Bolivia, the creation of 2,900 new posts opened new routes to political power and politicians who became prominent at the local level had a base from which to seek national office. In Argentina, the post of mayor of Buenos Aires became a proving ground for those seeking to run for president. Also the reform opened up spaces for new political parties, and a third party dominated the elected city council, challenging the traditional duopoly of Argentina’s leading parties.

The chapters detailing the political consequences of institutional reform in these three countries are intriguing and point out new areas for investigation. First, it is interesting to note that decentralization, like judicial reform today or administrative reform in the 1970s, happened in several countries in the region at about the same
time. Although not discussed in the book, how important are cross-country idea exchanges in the trend of undertaking similar reforms? In other words, does a regional “learning curve” exist and did Venezuela’s early reform prompt other governments to consider undertaking decentralizing reforms? Finally, the time period of the three case studies ends with the initial changes in strategy by politicians. Another interesting direction for further research would be documenting the effect of decentralization, particularly on the ability of governors, mayors, and municipal councils to address the concerns of citizens at the state and local levels.
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