The Implications of Institutional Design for Macroeconomic Performance: Reassessing the Claims of Consensus Democracy

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The choice between a proportional representation (PR) or plurality-based electoral system is commonly assumed to involve a trade-off. The former is assumed to provide fairer representation but at a cost in terms of stability and effectiveness. Recent work by Lijphart and others suggests that not only are PR-based (consensus) systems more democratic than plurality-based (majoritarian) systems but they are also more effective in terms of macroeconomic performance. This article offers a critical reexamination of these claims. The author provides empirical evidence that the superior performance of consensus democracy on two important macroeconomic indicators— inflation and unemployment—is driven largely by corporatism and central bank independence. After controlling for these, the results indicate that the core elements of consensus democracy are associated with higher rates of both inflation and unemployment. Whereas corporatism and independent central banks are claimed as elements of a broader concept of consensus democracy, the author argues that neither can be comfortably accommodated within the consensus framework depicted by Lijphart.
presents convincing evidence that PR-based (consensus) systems are both more representative and more effective than plurality single-member district (majoritarian) systems. Hence, Lijphart’s (1997) claim that “the results of statistical analysis were clear and almost completely unequivocal. . . . Over-all, consensus democracy is superior to majoritarian democracy. I have no second thoughts about these conclusions” (p. 197).

One of the more counterintuitive claims of this body of literature is that consensus systems are associated with superior macroeconomic performance—specifically, lower rates of both inflation and unemployment. This article provides a critical reexamination of these claims. I argue that the superior performance of consensus systems on these variables is driven by two institutional features: corporatism and central bank independence. Absent these two institutions, the core elements of consensus democracy are associated with inferior macroeconomic outcomes. I present empirical evidence to substantiate this argument. In light of these findings, it is important to examine in greater detail the nature of the relationship between corporatism and central bank independence and the other elements of consensus democracy. I argue that neither corporatism nor an independent central bank can comfortably be accommodated within the broad vision of consensus democracy depicted by Lijphart. Finally, the results presented here raise important doubts about the prescriptive utility of consensus democracy as a model for constitutional engineers in newly democratizing countries. These I examine in the concluding section.

LINKING CONSTITUTIONAL STRUCTURE TO MACROECONOMIC PERFORMANCE

Initial efforts to examine empirically the relationship between constitutional design and macroeconomic outcomes yielded ambiguous evidence. For example, Lijphart (1993, 1994) found that although PR parliamentary systems outperformed plurality parliamentary systems on a variety of indicators of “democratic quality,” no statistically significant differences between the two systems emerged with respect to inflation rates or economic growth. Meanwhile, unemployment rates in the former were shown to be significantly lower than in the latter (Lijphart, 1993, 1994). However, this difference in unemployment rates disappeared when using the interval-level Lijphart-Crepaz measure of consensus democracy (Lijphart, 1994, p. 10). The absence of a systematic relationship between constitutional design and macroeconomic outcomes was deemed significant by Lijphart because it undermined conventional assumptions regarding the greater effectiveness of
the strong, stable single-party governments characteristic of majoritarian systems.

Subsequent studies by Crepaz (1996a, 1996b) and Lijphart (1999) have advanced the case for consensus systems more strongly. Crepaz (1996a), for example, finds a positive, statistically significant relationship between consensus democracy and “popular cabinet support.” In turn, popular cabinet support is associated with lower levels of inflation and unemployment. The results of the second (1996b) article indicate a significant negative relationship between degree of consensus democracy and levels of unemployment and inflation, even within the context of multivariate models. These findings are supported by Lijphart’s (1999) most recent study. After refining the measurement of consensus democracy and expanding the number of cases included for analysis, Lijphart obtains the same broad pattern of results—the more consensual the system, the lower the rates of inflation and unemployment.1

Overall, then, the extant empirical evidence indicates that on two key indicators of macroeconomic performance, consensus systems are superior to majoritarian systems. However, we still know very little about why this is the case. In the absence of a coherent theoretical explanation for why the institutions of consensus democracy are statistically related to lower rates of inflation and unemployment, it is difficult to know whether such relationships are spurious or meaningful.

Crepaz (1996b) offers a theoretical explanation for the superior macroeconomic performance of consensus democracy that derives from Olson’s (1982) concept of “encompassing organizations.” In brief, Olson’s argument suggests that size matters in the mediation of societal interests. Small interest groups have strong incentives to pursue particularistic interests without considering the costs of their activities on society as a whole. Conversely, groups that encompass a larger proportion of the income-earning capacity of a country have greater incentives to pursue policies that privilege the general interest (Olson, 1982, p. 48).2 Systems dominated by a multiplicity of small orga-

1. In fairness to Lijphart, his claims concerning the relative macroeconomic performance of the two systems have been modest for the most part. His major point traditionally has been that consensus systems are not less effective than majoritarian systems in this respect. Nonetheless, in his most recent work Lijphart makes stronger claims about the superiority of consensus systems in terms of inflation rates, noting that “consensus democracy is uniformly associated with lower levels of inflation” (Lijphart, 1999, p. 272). Likewise, Crepaz’s (1996a, 1996b) results suggest that consensus systems are actually superior to majoritarian systems with respect to both inflation and unemployment.

2. The logic of Olson’s argument can be encapsulated in the following inequality. Groups will pursue particularistic benefits when \( B > s/S \cdot C \), where \( B = \text{group benefits} \), \( s = \text{group size} \), \( S = \text{size of the country} \), and \( C = \text{costs to society of the group’s actions} \). As \( s \) increases relative to \( S \), the
nized interest groups are prone to a variety of economic afflictions, including stagflation, low growth, and an incapacity to respond efficiently to changing economic conditions. Hence, a pluralist system of interest intermediation not only creates the conditions for economic crises but also undermines the capacity of the government to respond to these effectively.

In its original form, Olson’s argument focused primarily on the impact of the structure of societal interests on macroeconomic outcomes. In subsequent work, Olson applied its logic more explicitly to the political sphere, arguing that an ideal type of winner-take-all electoral system will produce larger, more encompassing parties (Olson, 1986a, 1986b). Conversely, proportional representation promotes the fragmentation of political interests. Crepaz accepts the logic of Olson’s argument but disputes his operationalization of the concept of encompassing organizations. Using a measure of popular cabinet support (the percentage of the voting population represented in government), he shows that the coalition governments typical of consensus democracies are systematically related to higher levels of popular cabinet support than their single-party majoritarian counterparts (Crepaz, 1996b, p. 9). In this sense, consensus governments are more encompassing than majoritarian and are therefore more likely to pursue macroeconomic policies that favor the general above particularistic interests. Although superficially plausible, Crepaz’s innovative interpretation of Olson encounters two main problems. Below, I address each in turn.

The first problem involves the application of the concept of encompassing organizations to coalition governments. It is evident from Olson’s argument that encompassing organizations in the political realm are envisaged as stable and durable aggregations of interests (Olson, 1986a, p. 171). Their stability and durability derive from the incentives provided by a winner-take-all electoral system. As is commonly known, this form of electoral system tends to favor two major parties and to penalize smaller parties in terms of representation. In terms of access to government power, small parties are effectively excluded. Hence, it is irrational for a particular group within a major party to seek the exit option and form a separate party to further the particularistic interests of a given constituency. To do so is to risk political oblivion (Olson, 1986a, p. 168). There are also powerful incentives to minimize distributive conflicts within parties. Deprived of a viable exit option, the fortunes of a major party’s constituent groups are irrevocably tied to the electoral fortunes of the party as a whole. Such a party is also, therefore, disciplined and unified (p. 171).

group is forced to bear a greater proportion of the societal costs of the group’s actions, and incentives to pursue group benefits decline accordingly.
Crepaz’s (1996b) major critique of Olson is that parties in winner-take-all systems are almost never elected by a majority of the electorate and that, in any case, the coalition governments characteristic of PR-based systems typically encompass a larger percentage of the electorate (Crepaz, 1996b, p. 9). But this sidesteps the core of Olson’s argument, which involves the relationship between group size, strategic incentives, and how these are affected by the electoral system. PR electoral systems promote the fragmentation of political interests. Groups do not need to coalesce into durable aggregations to secure representation in parliament and government. Electoral success for small parties in PR systems therefore depends on appeals to narrow constituencies, which in turn create “perverse incentives” to engage in efficiency-decreasing redistributions. Crepaz’s argument is legitimate only insofar as it can plausibly be argued that parties participating in a coalition government have incentives to place the general interest of the coalition as a whole above the particular interests of their electoral supporters. The incentives facing coalition governments are directly comparable with those confronting single-party majoritarian governments only to the extent that this argument is plausible.3

Although difficult to demonstrate definitely, the empirical evidence does not enhance the plausibility of this argument. Cabinet durability provides a useful indicator of the capacity of coalition parties to act as a coherent whole. Scholars have offered a plethora of explanations for variation in cabinet duration,4 but in the most basic sense, coalitions terminate either through natural causes (at election time), internal dissent, or because of legislative defeat (Woldendorp, Keman, & Budge, 1993, p. 116). I assume that the frequency of the first reason relative to the second reason for termination indicates some-

3. Although Crepaz recognizes this as a potential problem (Crepaz, 1996b, p. 10), his response is not entirely convincing. His first argument—that parties join coalitions not just for motives of power but also to advance particular policy interests—is counterproductive to his own case. It is far more plausible to assign unity of interest to a coalition if the constituent parties care only about enjoying the spoils of office. It is precisely because parties have divergent policy preferences that a “collective interest” on the part of a coalition is difficult to establish and even more difficult to maintain. His second argument draws on the work of Shepsle (1979) and is also problematic. Crepaz uses the author’s concept of “structure induced equilibrium” to explain how coalitions can alleviate the problem of majority vote cycling and impose stability on the coalition as a whole (1996b, p. 11). However, the logic of the Shepsle (1979) argument suggests an institutionalized logroll, whereby “high demanding” politicians (or parties) seek to control jurisdictions that then enable them to allocate particularistic (mainly distributive) benefits to supporters. If this is an accurate depiction of the way coalitions function, then it scarcely suggests a willingness on the part of participating parties to sacrifice particularistic benefits for the sake of the collective good of the coalition. In fact, it implies the converse.

4. A useful summary of the extensive research on coalition durability is provided by Laver and Schofield (1990, pp. 44-163).
thing important about the capacity of coalition parties to put the interests of the coalition above particular interests. An empirical examination reveals a strong, positive relationship (correlation = .61) between the degree of consensus democracy and the frequency of government termination due to internal dissent.\(^5\) This same pattern occurs when majoritarian systems are removed from the equation.\(^6\) This finding is not surprising, in that according to Lijphart’s operationalization of the concept of consensus democracy, the lower the level of cabinet durability, the more consensual the system. But it does have important implications in the context of Olson’s argument. In simple terms, the more consensual the system, the less plausible it becomes to attribute large group incentives to the coalitions produced and the more implausible it becomes to consider them encompassing organizations.

A second, perhaps more fundamental, reason to question the validity of Crepaz’s (1996b) argument is that Crepaz assumes that consensus democracy entails the aggregation of political interests, whereas the overarching principle identified by Lijphart as governing the distinction between consensus and majoritarian democracy implies the converse.

Although not without ambiguity, the primary conceptual distinction between consensus and majoritarian democracy seems to involve the extent to which power is either concentrated or dispersed throughout the political system. In Lijphart’s words, “The majoritarian model concentrates political power in the hands of a bare majority . . . whereas the consensus model tries to share, disperse, and limit power in a variety of ways” (Lijphart, 1999, p. 2). Consequently, in consensus systems, power is dispersed among a multiplicity of parties in parliament (Lijphart, 1999, chap. 5), between government and opposition (chap. 7), within governments (chap. 6), between center and periphery (chap. 10), and between equally powerful legislative chambers (chap. 11). Regardless of how accommodative or encompassing consensus democracy is claimed to be, therefore, it is characterized institutionally by an extreme fragmentation of power.\(^7\) In other words, consensus democracy

\(^5\) Figures for “reasons for termination” cover 19 Organisation for Economic Cooperation and Development (OECD) countries and are taken from Woldendorp, Keman, and Budge (1993, p. 116). For each country, I calculated the number of terminations due to internal dissent as a percentage of total terminations (elections + internal dissent), then correlated the resulting figures with each country’s score for consensus democracy (Lijphart, 1999, p. 312).

\(^6\) After removing the United Kingdom, Australia, New Zealand, and Canada from the analysis, the correlation dropped only slightly, to .58.

\(^7\) The only element that taps directly into the capacity of consensus systems to aggregate or share power is the “oversized cabinet” element. Originally, this element was operationalized literally by Lijphart (1984) such that all other forms of cabinets were classified as minimum winning. In his most recent coding of this variable, however, Lijphart (1999, p. 110) codes minority cabinets the same as oversized cabinets. This has the intuitively appealing effect of making the
relies on the logic of veto points (Birchfield & Crepaz, 1998). By this interpretation, consensus democracy involves maximizing the number of formal or semiformal veto points throughout the system. Formal veto points would consist of constitutionally mandated powers such as the right of a second chamber to reject legislation or a supermajority requirement to approve constitutional amendments. Equally important, however, are semiformal veto points. Although none of the participating parties in a coalition government is endowed with a constitutionally mandated power of veto, it is often the case that each possesses something akin to veto power in that the support of all parties may be required to maintain a legislative majority.

Interpreting the concept of consensus democracy in this way enables us to reconcile Lijphart’s apparently contradictory claims that consensus democracy serves the interests of minorities (Lijphart, 1993) while serving the interests of “as many people as possible” (Lijphart, 1999). If the consent, either formal or informal, of a system’s major political groupings is required to formulate and implement policy, then the policies produced will necessarily be supported by a broad consensus. However, while the multiplication of veto points creates a demand for consensus, it does not ensure the supply.8 Indeed, the greater the number of veto players in the system, the more difficult it

Scandinavian countries (among which minority cabinets are relatively frequent occurrences) more consensual but, in the process, undercuts the utility of this element as a measure of power aggregation or power sharing.

8. This is an important issue that has been largely neglected in the literature. Consensus advocates seem to simply assume that because particular institutional arrangements create a demand for consensus, supplies of the necessary consensus will emerge automatically to meet demand. But this need not be the case. Unless we start with a qualifying assumption about the cultural context within which the institutions are embedded, there is no obvious reason at all why the fragmented political environment of consensus democracy should result in consensus, rather than, say, perpetual conflict or stalemate. What evidence is there that systems classified by Lijphart as consensus democracies are actually characterized by a behavioral norm of consensus? The evidence appears mixed at best. For example, Luebbert (1986) creates a fourfold typology of multiparty democracies along two dimensions—legitimacy and consensus building. Systems that possess legitimacy but no tendency toward consensus building in policy making are termed competitive. In this cell, Luebbert includes Belgium and the Netherlands. “Conflictual” democracies lack traditions of consensus and legitimacy. Italy and Finland (until 1966) are Luebbert’s examples here. All four of these democracies are classified as highly consensual on Lijphart’s measure. Luebbert’s characterization of politics in Finland and Italy as conflictual is not controversial; most country specialists would concur with this assessment. Of the Netherlands, Lijphart (1975) has written, “The Netherlands cannot be called a consensual society, not even by the most generous stretch of the imagination. . . . Both the degree and the extent of political consensus are very limited” (p. 78). Similar judgments have been made about Belgium, where many view political outcomes as the product of stalemate rather than consensus (Covell, 1982; Frøgnier, 1997; Lijphart, 1999, p. 307). I dwell on this point primarily because
becomes to arrive at a consensus that satisfies all players. Paradoxically, then, the more consensual the system in terms of institutions, the less likely consensus is to emerge.

In the context of Olson’s argument, the implication of this interpretation of Lijphart is that stable and durable aggregations of political interests become more difficult to maintain as the number of veto players increases. Multiplying the number of veto points also decreases the relative size of relevant political groupings and provides each group with the necessary institutional means to pursue and defend particularistic interests. At the systemic level, therefore, the institutions of consensus democracy that serve to disperse and fragment political interests are also those that make it difficult for stable aggregations of interests to emerge and endure.

Whether viewed at the macro-level (systemic) or micro-level (governmental), therefore, the institutional fragmentation characteristic of consensus democracy militates against the emergence of encompassing organizations of the type envisaged by Olson. Indeed, the institutional landscape of consensus democracy, in which a large number of small political interests interact with few incentives to coalesce, approximates closely the political version of the “institutional schlerosis” depicted by Olson.

At this point, we encounter something of a conundrum. Empirical and theoretical support for Olson’s basic argument is widespread (Buchanan, 1975; Choi, 1983; Lehmbruch, 1977; Lehner, 1987; McCallum & Blais, 1987; Schmitter, 1981). Hence, the fragmentation of societal interests tends to be associated with unfavorable macroeconomic outcomes, whereas the reverse is true for coherent, encompassing bargaining environments. If, as Olson argues, the same logic applies to political institutions, we would therefore expect consensus rather than majoritarian democracies to generate inferior macroeconomic outcomes. However, the empirical evidence presented by Crepaz (1996a, 1996b) and Lijphart (1993, 1999) suggests precisely the opposite. What then accounts for the failure of evidence to confirm theory?

CORPORATISM, CENTRAL BANK INDEPENDENCE, AND MACROECONOMIC PERFORMANCE

It seems plausible that the missing link is provided by two institutions—corporatism and independent central banks (ICBs)—that were added to the consensus concept subsequent to Lijphart’s (1984) original specification.
Corporatism has been interpreted and defined in a variety of different ways but in simple terms it involves a negotiated trade-off between organized business and labor interests (with varying degrees of state involvement). The nature of the trade-off may vary from system to system but essentially involves guaranteed labor quiescence and moderation in wage demands in return for employment guarantees and the increased influence for labor in the realm of economic and social policy (Cameron, 1984). Cameron (1984) provides a plausible explanation of the causal chain linking low incidence of strike activity and wage moderation to high levels of employment and low levels of inflation (p. 157). The relationship between high levels of corporatism and low levels of both unemployment and inflation has been demonstrated repeatedly in empirical analyses (Bleaney, 1996; Bruno & Sachs, 1985; Crepaz, 1992; Havrilesky & Granato, 1993; Iversen, 1999; McCallum, 1983, 1986; Paloheimo, 1984a, 1984b; Soskice, 1990; Tarantelli, 1986). The question remains of why organized labor in strongly corporatist countries is willing to sacrifice short-term economic interests (the wage increases that could be obtained competitively in tight labor markets) for broader long-term goals such as full employment and superior macroeconomic performance.

Olson’s work provides a plausible answer to this. The structural affinity between corporatism and the concept of encompassing organizations is clear, and it has been recognized by both Olson and a number of other scholars. As most definitions and operational indicators of corporatism acknowledge, strongly corporatist countries are associated with highly centralized, monopolistic peak organizations that encompass a sizable segment of the productive forces of the economy (Calmfors & Drifill, 1988; Mitchell, 1996; Schmitter, 1979; Siaroff, 1999). Hence, both labor and business organizations have incentives to internalize the externalities of collective action. In contrast with highly pluralistic systems of interest group intermediation, in which multiple small groups have no incentive to acknowledge the general social and economic costs of their pursuit of particularistic goals, encompassing corporatist institutions have stronger incentives to pursue policies that favor the general interest and that enhance the economic well-being of society as a whole. According to Olson’s argument, therefore, the more corporatist the system, the more favorable the macroeconomic outcomes.

A substantial body of empirical evidence now exists to suggest that the degree of central bank independence matters for economic outcomes. Voices raised in dissent have been few, and there is by now overwhelming empirical
support for a strong, negative relationship between degree of central bank independence and inflation rates (Alesina, 1988; Alesina & Summers, 1993; Al-Mahrubi & Willett, 1995; Bleaney, 1996; Cukierman, 1992; Cukierman, Webb, & Neyapti, 1994; Grilli, Masciandaro, & Tabellini, 1991; Havrilesky & Granato, 1993; Heylen & Van Poeck, 1996; Iversen, 1999; Oatley, 1999). At the same time, many of the same studies have found no link between central bank independence and other variables such as unemployment or growth rates. Grilli et al. (1991) therefore conclude that an ICB provides a “free lunch”—delivering low inflation without imposing significant costs.

Explaining this robust statistical finding remains a source of controversy (Posen, 1998), but with minor variations, most economists follow a line of explanation that stresses the credibility of ICBs relative to political interests in the conduct of monetary policy (Cukierman, 1992; Grilli et al., 1991; Heylen & Van Poeck, 1996; Oatley, 1999). Because unexpected inflation redistributes wealth, control over monetary policy is in itself a source of distributive conflict. Elected officials can make commitments to monetary stability but face strong incentives to use control over the money supply for political purposes. Knowing this, a rational public is not fooled by attempts to impose a politically motivated monetary “surprise.” Inflationary expectations are built into the calculations of employees, who raise wage demands accordingly and employers, who increase prices to compensate. The result, therefore, is an inflationary spiral that has no positive impact on employment levels or output. Investing control over the money supply in a nonelected ICB insulates monetary policy from the demands of partisan interests. An ICB’s commitment to monetary stability is thus credible in a way that an elected official’s cannot be. Inflationary expectations on the part of the public are reduced, resulting in lower wage demands and fewer incentives for producers to raise prices.

Viewed broadly, then, an ICB removes control over monetary policy from the political arena, in which the temptation for elected officials is to manipulate the money supply for particularistic interests, and places it in the hands of a nonelected institution immune from such pressures. Although an ICB is clearly not an encompassing organization in the institutional sense, its incentive structure should produce similar outcomes in that it facilitates the implementation of monetary policy that serves the general rather than particularistic interests.

In the following section, I test three hypotheses. Based on the discussion so far, I hypothesize the following:

**Hypothesis 1:** The more corporatist a system, the lower the levels of inflation and unemployment.
Hypothesis 2: The more independent the central bank, the lower the level of inflation.

Hypothesis 3: The more consensual the political system in terms of the four core elements of consensus democracy, the higher the levels of inflation and unemployment.

Hypotheses 1 and 2 are straightforward. The literature strongly suggests that both should be supported. Hypothesis 3 is the most important. The results, if supportive, would provide confirmation that the political institutions of consensus democracy and the institutions of an ICB and corporatism have countervailing effects on macroeconomic performance. In turn, this would have significant implications for a broader understanding of the merits or otherwise of consensus democracy.

SPECIFYING THE MODELS

The dependent variables for the analyses are mean inflation rates and mean unemployment rates for 18 Organisation for Economic Cooperation and Development (OECD) countries across the 1970-1990 period. I used mean unemployment and inflation rates for each decade, for each country, as data points, which yielded 36 data points for each model. The main independent variables for the analyses are the elements of the consensus/majoritarian distinction as originally measured by Lijphart (1984) and as subsequently modified by the same author (1999). For both models, I used Lijphart’s (1999) data to calculate each country’s score across the four core elements of consensus democracy—disproportionality of the electoral system, cabinet durability, number of parties, and frequency of single-party, minimum winning coalitions. I standardized each measure, then summed across measures to create the consensus variable. Corporatism and central bank independence elements were entered separately in both equations.

9. The core elements of consensus democracy are those relating to the electoral system (proportionality) or the products of the electoral system (effective number of parties, cabinet durability, and coalition size). Together, these four elements are equivalent to the first (executive/parties) dimension of the consensus concept, with the element of corporatism removed.

10. The 18 countries analyzed are Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

11. For purposes of interpretation, more positive scores are associated with a higher level of consensus democracy. The measure of central bank independence is taken from Lijphart (1999, pp. 236-237), who calculates it from the combined indices of Cukierman, Webb, and Neyapti (1994) and Grilli, Masciandaro, and Tabellini (1991). The corporatism variable is also that used by Lijphart and is taken from Siaroff (1999). Because Lijphart’s new measure is actually an
In addition to the main independent variables, two control variables are also included in the models. I include the variable “ideology” to control for the impact of the ideological complexion of governments on macroeconomic outcomes. A large body of literature exists to suggest that left-leaning governments will tend to pursue policies that reduce unemployment levels, whereas right-leaning governments prioritize low inflation (Hibbs, 1977, 1987). The variable is measured using data from Woldendorp et al. (1993). Their measure of “ideological complexion of government” ranges from 1 for right-wing dominance to 5 for left-wing dominance and, with the exception of the United States, is scored for all postwar governments of relevance for the current study. In line with Schmidt’s (1982) assessment, all U.S. governments were coded as right-wing dominant.

As a number of scholars have argued, macroeconomic outcomes are also likely to be significantly influenced by the extent to which a country is integrated into the global economy (Cameron, 1978; Rogowski, 1987). Crepaz (1996b), for example, finds an “economic openness” control variable to be positively related to unemployment levels but unrelated to levels of inflation. However, a previous multivariate analysis found significant (though weak) positive relationships between economic openness and both unemployment and inflation rates (Crepaz, 1996a). Accordingly, I used OECD data to create...
an economic openness variable, measured as the sum of imports and exports as a percentage of gross domestic product (GDP). Data for both control variables were aggregated in the same manner as data for unemployment and inflation. Regarding the two control variables, higher levels of left-wing dominance are expected to be negatively related to unemployment but positively related to inflation rates. Level of economic openness, meanwhile, is expected to be positively correlated with unemployment rates.

Table 1 presents the results for both inflation and unemployment models. These results present a clear picture of the relationship between consensus democracy and inflation. Degree of corporatism is strongly and negatively related to inflation rates. Hence, the higher the level of corporatism, the lower the rate of inflation. Similarly, a highly significant, negative relationship between central bank independence and inflation is evident. In keeping with the extant literature, therefore, these results indicate that the more independent a central bank, the lower the level of inflation. The more interesting results relate to the relationship between inflation and consensus democracy. The coefficient for the consensus measure is positive and statistically significant at the .05 level. All else being equal, therefore, the results indicate that the core elements of consensus democracy are associated with higher levels of inflation.

Based on these results, a reasonable conclusion to draw is that the observed superiority of consensus democracies with regard to inflation rates is driven almost entirely by corporatism and central bank independence. Once these components are removed from the consensus measure, the remaining elements are associated with higher rates of inflation.

The results for the unemployment model further highlight the importance of corporatism to the empirical performance of the consensus concept. The coefficient for corporatism is statistically significant and negative in direction. Thus, the higher the level of corporatism, the lower the level of unemployment. The core elements of consensus democracy appear unrelated to unemployment rates.

With a relatively small number of data points, however, it is important to control for the potentially pernicious influence of outliers. Although this proved not to be a problem for the inflation model, three data points emerged as outliers in the unemployment models. The first, due to Ireland’s unusually high rate of unemployment during the 1980s, proved to be benign.¹³ The

¹³. I use the terms benign and malignant outliers in the same sense as Birchfield and Crepaz (1998). The data point for Ireland is benign in that its removal from (or inclusion in) the analysis does not affect the direction or magnitudes of the coefficients of the other variables. Thus, the data point is not a leverage point that drives the regression line.
other two, reflecting very low rates of unemployment in Switzerland during both decades, can be characterized as malignant, in the sense that their presence significantly affects the strength or the direction of the underlying relationships between the other variables in the model and the dependent variable. Table 2 replicates the unemployment model from Table 1 but includes a dummy variable for the two Swiss data points.

Once Switzerland is removed from the analysis, a somewhat different pattern of results emerges. The coefficient of the Swiss dummy is highly statistically significant and negative, indicating that, all else being equal, Switzerland enjoyed an average 7.5% lower unemployment rate over the period. The more interesting result relates to the consensus variable.14 After controlling for the effects of Switzerland, the consensus variable is significant and displays a positive sign. Hence, the more consensual a system across these four elements is, the higher the rate of unemployment.

There are two clear conclusions to be drawn from these results. First, the superior performance of consensus democracy with respect to macroeconomic outcomes is primarily attributable to corporatism in the case of unemployment and both corporatism and central bank independence in the case of inflation. Second, the core elements of consensus democracy (those relating to the electoral system and the form of government) are associated with higher levels of inflation and, if Switzerland is excluded from the analy-

14 A statistically significant, positive coefficient for the central bank variable is also an interesting finding, indicating that, all else being equal, the more independent the central bank, the higher the level of unemployment. This result makes sense intuitively in that the logic of the Phillips curve suggests some degree of trade-off between inflation and unemployment. However, in their bivariate analysis, Alesina and Summers (1993) find central bank independence to be negatively related to inflation rates but unrelated to unemployment. Hence, they conclude that central bank independence is a cost-free means of achieving monetary stability. The results presented here suggest otherwise.
sis, higher levels of unemployment. Thus, it appears that the overall superiority of consensus democracy with respect to inflation and unemployment is achieved because of corporatism and central bank independence and despite the presence of consensual political institutions. What, then, are the implications of these findings?

**ANALYSIS OF RESULTS**

On one level, these results do not appear especially damaging to the case in favor of consensus democracy. If corporatism and central bank independence are legitimate elements of a broader concept of consensus democracy, then these results would tend to support rather than undermine the extant evidence. However, it is questionable whether the two institutions that clearly influence unemployment and inflation levels can justifiably be considered integral elements of the consensus concept. In simple terms, are corporatism and central bank independence legitimate elements of consensus democracy? The primary reason for raising this question is that neither corporatism nor central bank independence formed part of Lijphart’s original two-dimensional measure of consensus democracy; corporatism was integrated into the executive-parties dimension by Lijphart and Crepaz (1991), while central bank independence has only recently been added to the federal-unitary dimension.

15. The question naturally arises as to whether the removal of Switzerland from the unemployment models is justifiable. The key justification for the removal of malignant outliers in small N statistical models is that their retention, by definition, serves to distort the pattern of statistical relationships underlying the analysis (Birchfield & Crepaz, 1998). The issue is more one of consistency. If the decision is made to remove malignant outliers, then this should be the practice regardless of how beneficial or detrimental to the case being argued.
Given that the macroeconomic benefits of both corporatism and central bank independence are well-known, this raises the possibility that these two elements have been incorporated to enhance the empirical performance of consensus democracy. To invalidate this accusation, a convincing case needs to be made that both institutions are empirically and theoretically consistent with the other elements of consensus democracy.

The case for the incorporation of corporatism into the executive-parties dimension is made by Lijphart and Crepaz (1991) in an article that claims to demonstrate the “conceptual and empirical linkages” between corporatism and consensus democracy. The empirical evidence appears robust. Bivariate analyses between degree of corporatism and the separate elements of consensus democracy yield an average correlation of .43 (Lijphart & Crepaz, 1991, p. 245). Lijphart’s recent adjustments to the measures of consensus democracy raise this average correlation to .54 (Lijphart, 1999, p. 245).

The more pressing concern is to demonstrate a convincing theoretical link between corporatism and the other elements of consensus democracy. The existence of correlations of varying degrees of strength cannot be taken as a sufficient condition for the incorporation of corporatism, or the concept of consensus democracy becomes potentially limitless.16 Lijphart and Crepaz’s (1991) analysis of the theoretical linkage between the concepts is brief, however. The authors stress the “conceptual affinity” between corporatism and consociationalism, in that both require a “disposition among elites towards collaborative or cooperative, rather than authoritative or majoritarian, modes of decision-making” (Lijphart & Crepaz, 1991, p. 238). This is a fragile justification in that it relies on assumptions about elite-level behavior in consensus systems that may or may not be valid. The elite-level conflict that characterizes a number of systems scored as highly consensual by Lijphart’s measure (for example, Italy, Finland, Belgium) suggests that the political institutions of consensus democracy may not be sufficient to produce consensus.

Regardless of whether elite-level behavior is sufficient justification for integrating corporatism into consensus democracy, it is clear that institutionally, the two are not similar. The political institutions of consensus democracy involve the systematic disaggregation of political interests; indeed, the more consensual the system by Lijphart’s measure, the more fragmented. Corporatism, meanwhile, entails the extreme aggregation of societal inter-

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16. For example, there are moderately strong correlations between degree of economic openness and both the complete measure of consensus democracy (.47) and the four core elements combined (.41). If an empirical linkage is taken as the only relevant criterion, then economic openness should also be incorporated into an overall measure of consensus democracy.
est. Most operational measures of corporatism allocate higher scores to systems in which there are fewer rather than more organized interests and in which wage bargaining is more rather than less centralized. Hence, as we move toward the high end of each scale, the institutional discrepancies between corporatism and consensus democracy become more pronounced. If, as most advocates claim, consensus democracy is an institutional model, then it seems reasonable to expect some degree of institutional symmetry among the constituent elements. At a minimum, it remains incumbent on Lijphart and others to justify how institutions that are virtual mirror images of each other can comfortably be accommodated within the same institutional framework.

Another important concern is methodological. The key to the theoretical coherence and consistency of Lijphart’s original specification of the consensus model was that the various elements were logically derived from the same underlying principle. More precisely, Lijphart derived the elements of the Westminster/majoritarian model logically according to the principle of “concentrating as much political power as possible in the hands of the majority” (Lijphart, 1984, p. 207; 1999, p. 4). The consensus model was then deduced as the logical opposite of the majoritarian model. To preserve the coherence of the models, the same methodological procedure should have been adopted when incorporating the element of interest group representation. Instead, Lijphart and Crepaz (1991) take the opposite approach. Corporatism is claimed as an element of consensus democracy, and its logical opposite (pluralism) is therefore deduced to be an element of majoritarian democracy.

The fallacy involved here is to assume that only one continuum (with corporatism and pluralism at either end) is possible. This is not the case. The corporatist/pluralist continuum assumes an underlying ordering principle based on criteria suggested by Schmitter’s definitions of the two terms. However, if the continuum is ordered according the principle of concentration versus diffusion of power, then a different picture emerges. At one end of the continuum are systems in which societal interests exercise no power because power is concentrated within the executive in parliament, and at the opposite pole are systems in which organized interests exercise a powerful role in the formulation and implementation of public policy. Based on Lijphart’s own words, it is this latter continuum that seems most appropriate for incorporating societal interests into the consensus/majoritarian distinction. Starting with Lijphart’s basic principle of “concentrating as much political power as possible in the hands of the majority,” it is evident that the ideal type majoritarian model would actually possess no system of interest group representation. The existence of powerful interest groups logically entails the dispersion rather than concentration of power and undercuts the principle on
which the majoritarian model is based. Consistent with Lijphart’s basic principle, interest groups should wield no political power within a majoritarian democracy. The logical opposite of this is a system in which power is widely dispersed among a multitude of interest groups and in which interest groups exercise sufficient power to check the interests of the majority in the legislature. The logical opposite, in fact, closely resembles the form of pluralism characteristic of the U.S. political system. Once again, the key point is that some explanation is required to justify the incorporation of societal interests in a way that appears to violate the original principle governing the distinction between consensus and majoritarian democracy.

The legitimacy of integrating ICBs into the consensus measure is also questionable. The problem does not involve the institutional compatibility of central bank independence and the other elements of consensus democracy. Removing control over monetary policy from political institutions and investing it in an ICB diffuses power by creating an additional veto point. Arguably, this is in keeping with the logic of Lijphart’s argument. The real question is whether there is any legitimate place for ICBs in a model of representative democracy.

Although a significant body of literature has been directed toward assessing the effectiveness of ICBs, relatively scant attention has been paid to the democratic costs involved in transferring control over monetary policy from elected politicians to unelected technocrats. As Berman and McNamara (1999) note,

What has been overlooked in the rush to make central banks independent is the fact that such political insulation does come at a price—although one not easily measured by slide rules or calculators. By turning over monetary policy to unelected and often unaccountable technocrats, countries surrender much control over their economic fates. (p. 5)

In a similar vein, Greider (1987) describes the U.S. Federal Reserve as “the crucial anomaly at the very core of representative democracy, an uncomfortable contradiction with the civic mythology of self-government” (p. 12).

ICBs are clearly not devoid of democratic legitimacy. They are created by parliamentary legislation and can therefore be terminated by the same means. Central bank appointments and dismissals are typically the prerogative of the head of the executive branch (sometimes—as in the case of the Federal Reserve—in collaboration with the legislative branch), and bank officials serve fixed, renewable terms of office. Therefore, in theory at least, ICBs are controlled by the people’s elected representatives, if not by the people themselves directly. A problem arises because the credibility of a central bank is
contingent on its degree of independence, and a greater level of independence in turn implies a reduction in political control. But it is important at this point to make a distinction between responsiveness and accountability. ICBs by their very nature are designed not to be responsive to political pressures, whether the source of these is the people themselves or their elected representatives. An ICB that responds to such pressure defeats the purpose of its own existence, and in this sense, there is an inherent contradiction between responsiveness and independence. However, this is not a clear-cut criterion on which to judge the democratic legitimacy of an ICB. Responsiveness may or may not be a desirable feature of representative institutions, and reasonable people have disagreed on this issue for centuries. Conversely, accountability is a defining feature of representative democracy. In the absence of mechanisms for holding representatives accountable for their actions, it is difficult to see how representative democracy can exist in any meaningful form. Obviously, because ICB officials are not subject to periodic elections, the people cannot hold them directly accountable. The key issue, therefore, is whether ICBs can be considered meaningfully accountable to elected representatives.

Amtenbrink’s (1999) careful comparison of seven central banks identifies a number of instruments that could be used to increase the accountability of central banks. These include override mechanisms (government powers to overrule or impose monetary decisions on a central bank); providing explicit, prioritized, and quantifiable monetary objectives for banks to follow; and establishing rules to increase the transparency surrounding bank transactions (Amtenbrink, 1999). The latter two are of critical importance, because in their absence, there is no yardstick against which to gauge a bank’s performance and hence no means of holding it accountable (p. 337). Of the six banks examined by Amtenbrink, four (the central banks of Germany, the United States, France, and the Netherlands) “lack a clear statutorily defined yardstick for holding the bank accountable” (p. 336). This is part of a broader pattern that emerges clearly from Amtenbrink’s study—the more independent the central bank, the less accountable it is to elected officials. This inverse relationship between independence and accountability is probably not surprising in that most expert indices of central bank independence equate accountability mechanisms with greater dependence.

The foregoing paragraph should not be interpreted as an argument against the establishment of an ICB or even that the democratic costs of ICBs necessarily outweigh the economic benefits. The main point is that ICBs operate outside the accepted norms of representative democracy; indeed, they undercut the fundamental principle of accountability on which the concept of rep-
representative democracy relies. Thus, the real question is whether ICBs can comfortably be accommodated in any model of representative democracy.\footnote{17}

**IMPLICATIONS AND CONCLUSIONS**

The previous section questioned the validity of incorporating corporatism and ICBs into Lijphart’s model of consensus democracy. No doubt some will remain unconvinced by the arguments presented. However, even if we assume these two institutions to be part and parcel of a broader consensus concept, there are still significant prescriptive implications that emerge from the findings presented in this article. In general, advocates of consensus democracy have not been slow to tout the prescriptive utility of the model. Invariably, studies demonstrating the empirical superiority of consensus democracy are accompanied by explicit recommendations to constitutional engineers or newly democratizing countries. Moreover, these prescriptions typically center on the importance of the electoral system. The results presented in this article prescribe caution. In terms of two important measures of macroeconomic performance—inflation and unemployment—the results suggest that a change from a plurality/single-member district to a PR electoral system would be detrimental to performance. In an ideal world, the most appropriate constellation of institutions for achieving optimal macro-

\footnote{17. Superficially, the same argument could be applied to a supreme court in that here, too, judges are typically appointed rather than elected and, once in place, are largely immune from political pressure. However, there are two important differences between independent central banks (ICBs) and supreme courts. First, assuming a basic level of competence, it is generally considered legitimate for those appointing judges to use political criteria when deciding appointments. In the United States, it is the norm for conservative presidents to make conservative appointments to the Supreme Court. Presumably, voters build this into their calculations when deciding how to vote. Hence, there is a link, albeit an indirect link, between popularly expressed preferences and the political complexion of the Supreme Court. This is not the case with ICBs, in which expressly political appointees would undermine the credibility of bank independence. President Carter discovered this, at his cost, with the appointment of “team player” William Miller to replace Arthur Burns at the Federal Reserve. To the extent that Miller was considered too cooperative with the economic goals of the Carter administration, his credibility on Wall Street was that much lower (Greider, 1987, pp. 20-21). The second key difference between ICBs and supreme courts concerns their respective functions within a democratic system. One of the most important tasks for a supreme court is the preservation of fundamental democratic rights and liberties embodied in a constitution. A supreme court can therefore be considered a necessarily undemocratic means of protecting the democratic “rules of the game.” It would be difficult to argue, although some have tried, that the stability of monetary policy is equivalently vital to the survival of a democratic system.}
economic performance would appear to be a majoritarian political system, a corporatist system of interest intermediation, and an IBC.

Is this a plausible combination of institutions? Combining central bank independence with majoritarian political institutions does not appear to create any practical or logical contradiction. Plurality-based systems such as the United States, Canada, and Australia all have reasonably independent central banks, yet the same is true for highly unitary countries such as Denmark, the United Kingdom, and New Zealand. However, it is extremely doubtful that corporatism can be as easily integrated into political systems. Most scholars of corporatism stress the importance of historical and cultural factors in the emergence of corporatism, implying that efforts to treat corporatism as a “transplantable” phenomenon are unlikely to succeed. The success of such efforts does not appear to depend on the electoral system. The failure of corporatism to take root during the 1970s in Britain, during the 1980s in Luxembourg, and repeatedly in Italy demonstrates that something more than an electoral system is required for corporatism to prosper.

At the same time, there is evidently a statistical association between consensus democracy and corporatism. All strongly corporatist countries have PR-based electoral systems. Yet, as Lijphart himself at one point admits, there is no obvious structural connection between the core elements of consensus democracy and corporatism (Lijphart, 1999, p. 306). What accounts for the empirical concurrence of corporatism and PR electoral systems? Surprisingly, Lijphart (1999) suggests that “the most plausible explanation is cultural” (p. 306). Although not explicitly stated, Lijphart here implies a spurious relationship between degree of consensus democracy and corporatism in that both are the product of a third variable—a “consensual political culture” (p. 306). The implications of this statement for the prescriptive utility of Lijphart’s model of consensus democracy are clear. If a consensual political culture is a prerequisite for the effective functioning of both consensus democracy and corporatism, then the institutions themselves are evidently not sufficient. Thus, any recommendations to constitutional engineers in newly democratizing countries should be made with extreme caution.

The current article has focused solely on the relative performance of consensus and majoritarian democracy with respect to inflation and unemployment. As such, it offers an initial challenge to the growing tendency in the literature to present consensus democracy as something of a universal panacea for the ills of majoritarianism (Lijphart, 1999, chap. 15). The 1990s have witnessed the relentless accumulation of empirical evidence demonstrating the superiority of consensus democracy. In Lijphart’s words, these results are “almost too good to be true” (Lijphart, 1999, p. 302). In some ways they are. Consensus democracy is not a free lunch. Whatever the benefits of consensus
democracy in other areas, in the context of inflation and unemployment, the results presented here suggest that the four core elements of consensus democracy are associated with inferior rather than superior performance.

REFERENCES


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