Consensus Versus Majoritarian Democracy: Political Institutions and their Impact on Macroeconomic Performance and Industrial Disputes
MARKUS M. L. CREPAZ
Comparative Political Studies 1996; 29; 4
DOI: 10.1177/0010414096029001001

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This article argues that consensual political institutions as operationalized by Lijphart and Crepaz (1991) have significantly favorable effects on unemployment, inflation, and the number of working days lost, whereas economic growth remains unaffected. Although this finding is consistent with Olson's theoretical concept of “encompassing organizations,” this study shows that Olson's empirical operationalization is flawed. “Strong,” two-party “Westminster” systems, based on single-member district electoral rules, and single-party, bare majority cabinets do not perform as well as “weak,” multiparty coalition governments with proportional representation as an electoral rule. An empirical measure of “encompassing organizations” is introduced, termed popular cabinet support. A cross-sectional/time-series panel study of 162 elections (18 countries and 9 elections per country, $N = 162$) provides strong evidence that governments with consensual, inclusive, and accommodative constitutional structures and wider popular cabinet support behave more “responsibly” than do their more majoritarian, exclusionary, and adversarial counterparts.

CONSENSUS VERSUS MAJORITARIAN DEMOCRACY
Political Institutions and Their Impact on Macroeconomic Performance and Industrial Disputes

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The purpose of this article is to answer the following question: Can variations in policy outcomes be systematically linked to formal political institutions? First, after reviewing some of the pertinent literature, I will compare and contrast Lijphart and Crepaz's (1991) concept of consensus democracy with Olson's (1982) concept of “encompassing organizations.” Second, I will introduce an empirical measure for encompassing organizations and create an empirical model of the impact of formal constitutional structures on macroeconomic outcomes and industrial disputes. Third, this
model will be empirically tested by employing a multivariate pooled time-series/cross-sectional panel analysis of 162 elections consisting of 18 industrialized countries and 9 elections per country \((N = 18, t = 9)\). Because not all elections in these 18 countries occurred at regular intervals, the time frame is approximately between 1956 and 1990. The countries examined are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and the United States.

This study argues that regime performance is critically influenced by the rules of the regime. *Rules of the regime* are direct constitutional features such as the type of executive-legislative relations, that is, whether these relations are presidential or parliamentary; the type of electoral system, that is, whether single-member district or proportional representation is used—or indirect features such as the type of party system, that is, whether there is a “strong” two-party or “weak” multiparty system; or the type of government, that is, whether a country is governed by a single-party, bare majority cabinet, minority cabinets, minimal winning or oversized coalition cabinets. In addition, many scholars (Cameron, 1984; Hicks, 1994; Katzenstein, 1985; Schmidt, 1982) have argued that regime performance is also affected by the various forms of interest representation such as pluralism or corporatism.

There is no conventional wisdom on the effects of these variations in constitutional structures. In an official policy position, the American Political Science Association (APSA, 1950) advocated the transformation of American political parties into strong, centralized political parties, because it was believed that this regime type would create more “responsible” parties. On the other hand, scholars such as S. E. Finer (1975, 1980) argued that “weak” multiparty coalitions, a consequence of proportional representation, would create more effective public policy than “Westminster-type” two-party systems. Powell (1982) noted that in parliamentary-PR systems political participation is higher and political violence is lower than in presidential or parliamentary-plurality systems. Baylis (1989) found that collegially ruled (executive power-sharing) political regimes have a higher gross national product (GNP) per capita; lower unemployment rates; lower levels of protest demonstrations; and lower levels of political strikes, riots, armed attacks, political assassinations, and “political deaths” than monocratically ruled (president or single-party, bare majority cabinets) political regimes.

In recent issues of the *Journal of Democracy*, the advantages and disadvantages of various constitutional structures were hotly debated. In an essay entitled “The Perils of Presidentialism,” Juan Linz (1993a) pointed out the superiority of parliamentary-PR constitutional structures, emphasizing their flexibility (as opposed to “rigid” presidential structures), their institutional
ability to share executive power and form coalitions, and the longer time horizon of prime ministers as opposed to presidents, which allows them to create long-term, more predictable, responsible, and accountable public policies.

Linz (1993b) strongly argued in favor of parliamentary-PR systems particularly in deeply divided societies, arguing that “in societies that are polarized, or fragmented by multiple cleavages, a multiparty system with proportional representation may allow the formation of alternative coalitions (as in Belgium, for example), and thus forestall dangerous zero-sum games” (p. 139). Linz (1993b) pointed to one of the central drawbacks of divided government by discussing the United States: “Divided control has led to a politics of stalemate and mutual recrimination,” and, posing the rhetorical question of whether presidentialism provides for effective government, his answer is “a resounding no” (p. 143).¹

Regarding the U.S. experience, Sartori (1989) argued that in the absence of consonant majorities (the coincidence of presidential and legislative majorities) and concurrence in foreign affairs, “there emerges an antagonistically divided government whose two main elements perceive that their respective electoral interests are best served by the failure of the other institution” (quoted in Linz, 1993b, p. 143).

However, Horowitz (1993) and Lipset (1993) have questioned Linz’s assessment. Whereas Horowitz presented counterexamples where parliamentary systems broke down, Lipset argues in favor of the preponderant nature of cultural and economic factors rather than institutional ones. This is indeed important if one investigates political institutions in developing countries. Nevertheless, when comparisons are drawn from a comparable sample of modern, industrialized democracies with relatively similar cultural and economic conditions, as this article does, differences in outcomes may be attributed to differences in institutional structures rather than cultural ones.

Most recently, Arend Lijphart (1993) has suggested that “consensus democracies” display a higher “quality of democracy” measured in terms of representativeness, accountability, equality, and participation. His own empirical analysis containing a wide range of data—among them data on unemployment, inflation, economic growth, income share of the top 20% of the population—tends to support his claim. However, Lijphart’s findings are questioned by Lardayret (1993), who describes Lijphart’s findings as “questionable, even utopian” (p. 165); and Quade (1993), who argues that PR is responsible for “splintering parties and political gridlock” (in Italy), for

¹ Linz (1993b) continues: “The American system works or has worked in spite of, rather than because of, the presidential constitution in the United States” (p. 143).
"chronically crippling" the French Fourth Republic, and "suicidal" by its inability to deal with colonial and domestic problems (p. 167).

Given this dazzling variation of pros and cons on the impact of inclusive, consensual, accommodative versus exclusive, majoritarian, and competitive political institutions, the task of this article is to find out whether these different types of political institutions have a systematic measurable impact on economic (unemployment, inflation, economic growth) and political (industrial disputes) outcomes.

The essence of the concept of consensus democracy is found in Lijphart's answer to the question "Who should govern?" His answer: "as many people as possible" (Lijphart, 1984, p. 4). The Lijphart and Crepaz (1991) composite measure of consensus democracy consists of six items: first, the adjusted percentages of the time during which minimal winning cabinets were in power; second, the average cabinet durability; third, the effective number of parties; fourth, the number of issue dimensions; fifth, electoral disproportionality; and sixth, the degree of corporatism. These standardized measures allow for the direct comparison of 18 industrialized democracies along the consensus-majoritarian dimension.

Consensus-oriented countries have institutional mechanisms that allow broad-based access and participation in the political process (e.g., Switzerland, the Netherlands, Finland). These countries are characterized by executive power sharing, proportional electoral systems, multiparty systems, and a corporatist form of interest intermediation. These institutional characteristics are designed to facilitate inclusion and to provide access, accommodation, and consensus among different political actors.

Majoritarian-oriented countries on the other hand are those with single-party, bare majority cabinets, single-member district system electoral rules, two-party systems, and a pluralist form of interest intermediation (United Kingdom, New Zealand, Canada). These political systems are designed to create exclusive, "strong," decisive, and accountable parties and executives that are said to produce more "responsible" public policies.

Why should consensual governments be more successful in achieving macroeconomic policies than majoritarian ones? First, it is important to keep in mind that the measure of consensus/majoritarian government consists of six elements of which corporatism is an element of consensus government and pluralism is an element of majoritarian government. The effects of pluralism or corporatism on macroeconomic outcomes are widely known,

2. In 1993 the people of New Zealand voted to abolish their first-past-the-post electoral system and replace it with a PR system similar to Germany's. This increases the likelihood of an increase in the number of parties in parliament and future coalition governments in New Zealand where since 1946 only single-party majority cabinets ruled the country.
and I have already cited some of the more important scholars in the field who argued that corporatism tends to create more favorable macroeconomic outcomes than pluralism. Second, with regard to the constitutional elements of consensus democracy, it is argued that it creates more stable, steady, continuous, and more predictable forms of government than majoritarian systems with alternating governmental responsibilities.

The more voices are heard, the more options will be entertained and a greater range of information will be taken into consideration ensuring a steady, long-term, and predictable policy style. In addition, widespread participation in policy decisions will be more widely accepted. Although it is true that multiparty coalition governments are shorter-lived than bare majority cabinets (Lijphart, 1984), this need not adversely affect regime performance. The relative difference in change of public policy is larger in two-party systems when parties alternatively become governing parties than in multiparty systems where one or two minor coalition parties are exchanged with other small parties.

To be successful, many policies need to be pursued over a lengthy period of time. In two-party systems, where governmental responsibility alternates regularly between two parties with varying views on how to solve economic, political, or other problems, policy tends to get interrupted, reversed, modified, reviewed, and so on. In other words, as governmental responsibilities alternate between two parties, stability, predictability, and steadiness of policy suffer. The more adversarial the policy style, the less steady and predictable policy is; conversely, the more consensual the policy style, the more steady and predictable it is.

Gamble and Walkland (1984) have argued that this adversary political style has negatively affected British economic policies. "The rituals of the two party adversary system have contributed to the political failure to reverse or arrest relative economic decline" (p. x). Their argument is that the British majoritarian political system does not provide sufficient "steadiness" to steer the economy along a stable, continuous path.

The [British] government pursued these sound policies...but just as they were bearing fruit there was a general election which it lost, and its adversary then returned to office with its own new radical manifesto. So the cycle began again. The main casualty was business confidence and the main consequence a deteriorating economic performance. (p. 25)

Gamble and Walkland make a strong case against majoritarian governments and their inability to instill stability, predictability, and confidence among the central actors in the British polity. This article argues that consensual forms of government possess the capacity to create stable and predictable policies,
thus instilling confidence among the most important decision makers in a modern policy that should manifest itself in higher regime performance.

With the exception of Mancur Olson (1982, 1986a, 1986b), no other scholar has presented a systematic theory why majoritarian systems should behave more "responsibly." Olson's concept revolves around the notion that "encompassing organizations" have a higher incentive to "internalize the externalities" of collective action. The more encompassing parties become, the more their interest and the "general interest" converge; thus they tend to behave more responsibly by minimizing redistributive policies favoring particular groups. In empirical terms, what Olson has in mind is "to construct a model of an exceptionally simple and prototypical democracy with a thoroughgoing 'winner take all' character" (Olson, 1986b, p. 167). As examples he mentions the "presidential systems of France, the United States, or of party competition in Great Britain in the periods when it has had, for all practical purposes, a two party system" (p. 168). The following quote reveals that Olson (1986b) assumed that two-party systems create a majority of voters: "The incumbent party seeking reelection has an incentive to bring about conditions that will make a majority of the voters want more of the same" (p. 169).\(^3\) Olson's argument, and my own, using the variable popular cabinet support, is purely based on group size. The only difference between Olson's concept and the one introduced here is that whereas Olson believes that two-party systems produce a "majority of voters" (thus his concept of "encompassing organizations"), I argue that if popular support of cabinet parties in coalition governments is added up, a larger percentage of voters are "encompassed" in multiparty coalition governments than in bare majority cabinets.

At first glance there does not appear to be a conceptual affinity between Olson's concept and Lijphart's. I will argue, however, that Lijphart's concept of consensus democracy and Olson's concept of "encompassing organizations" are closer in spirit than it initially appears. Theoretically, both concepts assume that the wider the popular support for the government, the more responsible the government will be. The most glaring contradictions between the two concepts is in regard to their empirical operationalizations.

Two different but complementary measures for "encompassing organizations" are introduced. First, Lijphart and Crepaz's (1991) measure of consensus democracy is introduced as a "proxy" measure of "encompassing organizations." Their measure refers to the institutional setup of a political system.

3. Olson is undoubtedly mistaken in the belief that two-party systems bring out "majority of voters." A clear example is the British case where none of the two leading parties commanded a majority in popular votes since 1935 although they alternately commanded legislative majorities that are, of course, a result of the contaminating influence of the electoral system.
ranging from inclusive, consensus-oriented, accessible, and corporatist institutions to exclusive, majoritarian, restrictive, and pluralist institutions. In this context, accessible means the opportunity of other than the established parties to shape policies as a function of the electoral system, whereas restrictive means that only one of the two largest parties effectively shapes policies.

The second "proxy measure" of "encompassing organizations" is termed popular cabinet support and is defined as the sum of popular votes for parties that make up a coalition government with the goal to produce unified public policy. Given the inclusive nature of consensual political systems based on the PR electoral rule, multiparty coalitions are often observed.4 Because PR is a finer instrument to translate votes into seats than majority or plurality electoral rules, coalition governments tend to represent higher numbers of voters than do bare majority, single-cabinet parties. Defined in this way, coalition governments represent the "critical mass" that is necessary to create and implement minimally redistributive policies in Olson's sense, that is, policies that do not starkly favor one particular group over others.

The conceptualization of the indicator "popular cabinet support" as a proxy for "encompassing organizations" leads to a central question: Can we assume a collective interest among the coalition partners? Empirical tests of various coalition theories showed that "policy-based" coalition theories predicted the occurrence of actual coalitions much better than purely power-maximizing, "policy-blind" (Riker, 1962) coalition theories (De Swaan, 1973; Taylor & Laver, 1973). Lijphart (1984) interpreted these findings in this way: "Parties are not pure power-maximizers. They want to participate in cabinets not just in order to hold a share of governmental power but also to collaborate with other like minded parties and to advance particular policies" (p. 53).

For the purpose of this study, however, the motivations of parties to join coalitions, be they policy seekers or office seekers, is not relevant. What is

4. However, there are some parliamentary-PR countries that are characterized by a large share of minority cabinets, defined as cabinets that do not have a majority in terms of seats in the legislature. Among the European countries, Denmark and Sweden are the clearest examples of minority cabinets. Between 1945 and 1980 minority cabinets were in power 68% of the time in both countries (Lijphart, 1984, p. 61). Various scholars who have studied minority cabinets agree that more than one third of all cabinets in the world of parliamentary democracies are minority cabinets (Strom, 1990, p. 8). Still, these cabinets govern with the help of so-called support parties that support the cabinet in one issue area or another. Depending on issue area, different parties may lend support to the minority cabinet. For our purposes, it is almost impossible to find out exactly how much "outside" party support a minority cabinet receives. In reality, popular cabinet support is higher in countries such as Denmark and Sweden than the number of popular cabinet support for these countries suggests. However, as a result of this intractable measurement problem, only the popular support of official cabinet parties is measured.
Table 1
Percentage of Median and Mean Popular Cabinet Support (1945-1987) for Parliamentary-PR, Parliamentary-Plurality, and "Other" Democracies

<table>
<thead>
<tr>
<th>Type of System</th>
<th>Median</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Parliamentary-plurality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>systems: Australia, Canada, New</td>
<td>45.69</td>
<td>45.10</td>
</tr>
<tr>
<td>Zealand, Great Britain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Parliamentary-PR systems:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria, Belgium, Denmark,</td>
<td>57.68</td>
<td>56.30</td>
</tr>
<tr>
<td>Finland, Germany, Italy,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the Netherlands, Norway,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. &quot;Other&quot; democracies:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France, Ireland, Japan,</td>
<td>52.28</td>
<td>55.46</td>
</tr>
<tr>
<td>Switzerland, United States</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note. The group of "other" democracies does not neatly fit into the dichotomous classification of parliamentary-PR versus parliamentary-plurality systems. France is a semipresidential system; Japan uses a semiproportional electoral system (single nontransferable vote); the United States is a presidential system; Switzerland’s seven-member Federal Council is not subject to Parliament’s confidence, but it is elected by Parliament. Finally, Ireland uses the single-transferable vote as an electoral system with a small district magnitude limiting proportionality. Some authors classify Ireland even as a plurality system (Katz, 1980).

relevant is that once parties have agreed to form a coalition, certain institutional factors, such as to compartmentalize responsibility and specialization of various ministers in the governing coalition, induce equilibrium among the various coalition partners. Institutions and procedures can impose stability in a multidimensional policy space that would otherwise be characterized by chaos and unpredictable ("cycling") voting behavior (Shepsle, 1979; Shepsle & Weingast, 1987). I agree with Laver and Schofield (1990) that once a coalition has formed, "it develops something of a life of its own, given the constitutional requirements associated with its formation and dissolution, together with the fact that possibilities to defeat it present themselves only now and again" (p. 130). Once in power, coalition parties

consume all of the intrinsic benefits of office-holding, including control over a comprehensive set of patronage appointments. They control the cabinet portfolios that give sweeping de facto control over policy outputs, outputs that relate both to public goods and to distributive goods targeted at particular constituencies. Finally, the executive coalition of parties retains office on the basis of a policy program. (Laver & Schofield, 1990, p. 129)

Because this study attempts to measure encompassing organizations and their policy impact, what is relevant is to show that popular cabinet support is higher in parliamentary-PR systems than in parliamentary-plurality systems and whether Olson’s logic stands the empirical test. Thus it is assumed
that, at least for periods of time, coalitions are treated as groups of parties with a collective interest to stay in power, to produce policy, or both.

Table 1 shows that cabinets in parliamentary-PR systems clearly enjoy a on average 12% higher popular support than do cabinets in parliamentary-plurality systems. In this sense, the coalitions in parliamentary-PR systems can be seen as true encompassing organizations, whereas the oftentimes single-party, bare majority, parliamentary-plurality systems clearly enjoy smaller popular support. Table 1 provides strong evidence that two-party systems do not represent "a majority of voters" despite Olson's claim to the opposite. Instead, a majority of voters is best represented in the sum of popular votes for parties, which after coalition negotiations have become cabinet parties carrying governmental responsibility.

METHODOLOGY, VARIABLES, AND HYPOTHESES

This study will employ a pooled time-series/cross-sectional panel analysis consisting of 18 countries covering 9 elections per country ($N = 18$, $t = 9$). This type of panel analysis presents particular statistical problems because the difficulties of both cross-sectional analysis (heteroscedasticity) and time series (serial correlation) are compounded in pooled panel analyses. In addition, errors may be correlated across cross sections at the same point in time. However, because the time-series aspect of this research design measures elections occurring at irregular intervals, the latter problem is not as relevant as if the time series were continuous across all units. The cross-national, dominant nature of the model ($N > t$) suggests concerns, particularly for nonconstant variance of error terms (heteroscedasticity).

If the research design is cross-national dominant, Stimson (1985, 945) recommends the application of least squares dummy variables (LSDV) for cases where unit effects are present and concern for estimator efficiency is not paramount, that is, when estimating from very large samples. More recent research (Beck & Katz, 1994), however, deviates from Stimson's advice. These authors argue that, if the error structure in ordinary least squares (OLS) is properly corrected for, traditional OLS methods are as efficient as the more complicated feasible generalized least squares methods. Beck and Katz suggest that least squares estimates should perform fine unless contemporaneous correlation (i.e., when large errors for unit $j$ at time $t$ are associated with large errors for unit $j$ at time $t$) is unusually high, an event that hardly occurs in practice. To correct for heteroscedasticity, they introduce "panel-robust standard errors" (PRSEs). With regard to serially correlated errors,
Beck and Katz's preferred method for correcting for serial correlation in panel models is to add a lagged dependent variable.

In light of their research, this article follows Beck and Katz's recommendation. However, rather than using PRSEs, I will use White's (1980) heteroscedastic-consistent variance/covariance matrix to control for heterogeneity of units.\(^5\) Serial correlation in this panel study will be corrected for by introducing a lagged endogenous variable.

Because the variable "popular cabinet support" is defined as the sum of popular support that governing parties receive, general elections are the unit of analysis. Data will be derived from coalition formations after general elections and not after any other form of government dissolution. For instance, if a coalition changes as a result of a change in prime minister or as a result of an addition or expulsion of a party, this is not reflected in the data on popular cabinet support.

The dependent variables of this research design are the traditional macroeconomic outcome variables: unemployment, inflation, and economic growth. These "big three" macroeconomic outcome variables were chosen on the basis of their immense political importance. The fate of cabinets and presidents is tightly intertwined with the conditions of their national economies. In regard to the central research question, which is whether policy outcomes can be systematically linked to constitutional structures, macroeconomic outcomes are surely the most important contenders for this genre of "does it matter?" questions.

In addition, the number of industrial disputes is also employed as a dependent variable, and it is hypothesized that consensual constitutional structures and wide popular cabinet support should be reflected in the amount of working days lost in various countries. After all, consensual political arrangements should ideally be suited to create a climate of accommodation, bargaining, and consensus. Studies emphasizing the influence of corporatist structures on strike frequencies (Cameron, 1984; Crepaz, 1992; Czada, 1983; Humphries, 1990; Korpi & Shalev, 1979) found that corporatism tends to lessen the number of strike incidences. Although corporatist structures are informal in nature, the current research complements the earlier findings by emphasizing the formal constitutional structures and its effects on regime performance in various countries.

The theoretically most important independent variables are (a) popular cabinet support measured the sum of popular votes for parties that are cabinet parties and (b) Lijphart and Crepaz's (1991) measure of consensus demo-

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5. Beck and Katz's method to calculate panel-robust standard errors (PRSEs) is not included in popularly available software packages yet. It necessitates the writing of additional program codes for RATS 4.02 (Regression Analysis and Time Series).
racy. Additional control variables are government outlays (current disbursements and gross capital formation), political dominance (partisan coloration), a dummy variable for the Organization of Petroleum Exporting Countries (OPEC; for the years between 1974 and 1982), and economic openness (imports and exports as a percentage of gross domestic product or GDP). In addition, for the unemployment model, inflation was used as an additional predictor. Similarly, for the inflation model, unemployment was also used as an explanatory variable. The general model looks like this:

\[ Y = C + \beta_{1,t-1} + \beta_{2}\text{pop} + \beta_{3}\text{cons} + \beta_{4}\text{gov} + \beta_{5}\text{pol} + \beta_{6}\text{opec} + \beta_{7}\text{ecopen} + e, \]

where

- \( C \) = intercept
- \( \beta_{1,t-1} \) = lagged endogenous variable (AR1)
- \( \text{pop} \) = popular support
- \( \text{cons} \) = consensus democracy
- \( \text{gov} \) = government outlays
- \( \text{pol} \) = political dominance
- \( \text{opec} \) = opec dummy (1974-1982 = 1, 0 otherwise)
- \( \text{ecopen} \) = economic openness
- \( e \) = error term

The following hypotheses will be tested:

**Hypothesis 1.** Given the theoretical explication above concerning the logic of encompassing organizations, it is hypothesized that as popular cabinet support increases, unemployment and inflation should decrease, whereas economic growth is expected to increase; that is, the wider the popular support that governments enjoy, the more "responsible" governments will behave. Similarly, the more consensus oriented a constitutional structure is, the less redistributive (lower unemployment and inflation, higher economic growth) its policy outcomes should be.

The degree of consensus democracy and popular cabinet support are two different but complementary measures of the inclusiveness/exclusiveness of the political system. Both variables are only slightly related with each other (Pearson’s \( r = .4 \)). The three macroeconomic variables were lagged by 1 year (e.g., for a coalition formed in 1964, the unemployment level of 1965 was used to correspond with the popular cabinet support of 1964).

**Hypothesis 2.** Complementing earlier research on the effects of corporatism on industrial disputes, it is hypothesized that not only informal institutions (such as corporatism) but also formal constitutional structures (i.e., whether the country is consensus or majoritarian oriented) affect the number of working
days lost. It is expected that the more consensus oriented the constitutional structure and the wider the popular cabinet support, the smaller the number of working days lost. These data were also lagged by 1 year. Both Hypotheses 1 and 2 can be understood as a test of Olson’s theory of “encompassing organizations” because both core independent variables—popular cabinet support and consensus democracy—are treated as empirical operationalizations of Olson’s concept.

Concerning the control variables, it is plausible that government outlays (current disbursements and gross capital formation) affect macroeconomic variables. Government outlays may influence unemployment insofar as job retraining, public sector jobs, early retirement schemes, public works projects, and so on tend to reduce the level of unemployment. Thus a negative sign, that is, an unemployment-reducing effect of government outlays, is expected. These data were also lagged by 1 year.

Macroeconomic outcomes may also be driven by party-specific policies. Kirschen (1964) was one of the first scholars who suggested that leftist parties should create policies that reflect the interests of their constituency, that is, leftist parties’ policies should reduce unemployment while unintendedly increasing inflation. Conversely, conservative parties should create economic policies that keep inflation down at the cost of rising unemployment. This intuitive hypothesis has been empirically tested by a number of researchers (Beck, 1982; Hibbs, 1977) and generally found to be correct. Therefore, this article also controls for partisan coloration by using Schmidt’s (1992) data on political dominance.

Macroeconomic outcomes are also affected by exogenous economic shocks, such as the supply shocks of the mid-1970s and early 1980s as a result of the drastic increases in oil prices by OPEC. To control for this circumstance, an OPEC dummy variable is introduced for the years 1974 to 1982.

In addition, the relevance of the domestic economic policies or the importance of the constitutional structure of a country might be overridden, not only by exogenous economic shocks but by the degree of economic integration of a country into the international political economy. Particularly small, open economies are affected by their degree of dependence on the ups and downs of the international business cycle. Katzenstein (1985), Cameron (1978), and Rogowski (1987) pointed out the “embeddedness” of small countries in the international political economy and how this factor affects the institution-building process of these countries and their macroeconomic policies. As a result, this research design employs the measure “economic openness,” operationalized as imports and exports, as a percentage of GDP as an additional control variable.
### Table 2
Pooled Cross-Sectional/Time-Series Analysis of Unemployment and Inflation (approximately between 1956 and 1990) With a Lagged Endogenous Variable and Heteroscedasticity-Consistent Standard Errors \( N = 162 \)

<table>
<thead>
<tr>
<th></th>
<th>Unemployment</th>
<th>SE</th>
<th>Inflation</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Popular cabinets support</td>
<td>-0.017</td>
<td>(0.012)*</td>
<td>-0.38</td>
<td>(0.15)***</td>
</tr>
<tr>
<td>Consensus democracy</td>
<td>-0.95</td>
<td>(0.24)***</td>
<td>-1.16</td>
<td>(0.38)***</td>
</tr>
<tr>
<td>Political dominance</td>
<td>-0.052</td>
<td>(0.099)</td>
<td>0.31</td>
<td>(0.18)**</td>
</tr>
<tr>
<td>OPEC(^{a}) dummy</td>
<td>0.70</td>
<td>(0.29)**</td>
<td>2.69</td>
<td>(0.71)***</td>
</tr>
<tr>
<td>Economic openness</td>
<td>2.07</td>
<td>(0.77)**</td>
<td>0.09</td>
<td>(0.012)</td>
</tr>
<tr>
<td>Government outlays</td>
<td>0.12</td>
<td>(0.023)**</td>
<td>0.04</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Unemployment ((t - 1))</td>
<td>0.58</td>
<td>(0.068)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation ((t - 1))</td>
<td>-0.012</td>
<td>(0.036)</td>
<td>0.36</td>
<td>(0.072)**</td>
</tr>
<tr>
<td>Inflation ((t - 1))</td>
<td></td>
<td></td>
<td>-0.31</td>
<td>(0.09)***</td>
</tr>
<tr>
<td>Popular cabinet support(^{2})</td>
<td></td>
<td></td>
<td>0.0026</td>
<td>(0.0012)**</td>
</tr>
<tr>
<td>Intercept</td>
<td>-3.13</td>
<td>(1.09)**</td>
<td>14.51</td>
<td>(5.12)***</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>.76</td>
<td>.50</td>
<td>.47</td>
<td></td>
</tr>
<tr>
<td>Adjusted ( R^2 )</td>
<td>.75</td>
<td></td>
<td></td>
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<tr>
<td>( df )</td>
<td>153</td>
<td>152</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note. Data for popular cabinet support are Thomas T. Mackie and Richard Rose’s (1991) *The International Almanac of Electoral History and Elections since 1945, A Worldwide Reference Compendium* (1989). To determine which parties formed coalitions, the data by Woldendorp, Keman, and Budge (1993) were used in combination with the electoral data. The data for consensus democracy are from Lijphart and Crepaz (1991). Data on political dominance are from Manfred Schmidt (1992). These data represent a 5-point scale ranging from 1 (*bourgeois hegemony*), to 2 (*bourgeois dominance*), to 3 (*balance*), to 4 (*social democratic dominance*), to 5 (*social democratic hegemony*). Data on economic openness are from the Organization for Economic Cooperation and Development’s (OECD) *Economic Outlook* and from various separate OECD country studies. Inflation, government outlays, and unemployment data are from OECD’s *Economic Outlook* (various editions) and the United Nations (1957, 1961) *Statistical Yearbook.*

a. OPEC = Organization of Petroleum Exporting Countries.

*significant at the .1 level; **significant at the .05 level; ***significant at the .01 level (one-tailed tests).

### RESULTS AND INTERPRETATION OF FINDINGS

Table 2 presents the results of the unemployment model. Closer inspection of the parameters indicate that both core-independent variables, consensus democracy and popular cabinet support, are statistically significant.

Popular cabinet support displays the expected negative sign and is significant at the .1 level. Similarly, the second measure of “encompassing organization,” consensus democracy, also displays the expected negative sign and
is significant at the .01 level. This indicates that the wider popular cabinet support, and the more consensus oriented the constitutional structure, the lower the rate of unemployment. These results hold up in a controlled multivariate environment where most of the additional control variables are also significant, with the exception of political dominance and inflation.

The parameter of the OPEC dummy variable of .7 indicates that unemployment was .7% higher as a result of the oil-restraining policies of OPEC. The positive coefficient for economic openness is consistent with the hypothesis spelled out above. The more open economies are the more their policies are affected by the ups and downs of the international business cycle. The coefficient of 2.07 indicates that a one-unit increase in "economic openness" yields a 2.07 increase in unemployment, which clearly illuminates the limits of domestic economic policy making.

The highly significant positive coefficient for government outlays is puzzling, however. According to our hypothesis, the coefficient should display a negative sign. Nevertheless, the results indicate that government outlays increase, rather than decrease, unemployment. Although this result is not the gist of the article, two ad hoc explanations are entertained: First, the sign might be correct but causality is reversed, that is, high unemployment creates high government outlays.

Second, modern welfare states may have reached a point where they have become too cushy. The impact of strong unions, minimum wages, and generous welfare benefits might clog the clearing mechanism of labor markets. Labor may have become too sheltered and too expensive for employers in Western Europe in particular (Schmidt, 1982). Even corporatist countries such as Austria and Sweden have historically high unemployment rates: 8.4% and 8%, respectively (in 1993). In fact, the nonaccelerating inflation rate of unemployment (NAIRU—the level of unemployment required to hold inflation steady) has been steadily going up as welfare states have expanded. It appears that as long as labor markets are as protected and sheltered by unions and minimum wage laws, they will lack the flexibility to create new, lower paying jobs. The specter of "eurosclerosis," which is in its second decade now, is still haunting Europe ("A Bad Case of Arthritis," 1994).

It is not only the "stickiness" of wages that refuse to adjust downward as a result of the influence of organized labor but also generous welfare benefits that undermine the incentive to actively seek work. The so-called replacement rate—the ratio of unemployment benefits to wages—averaged 36% in 1990 in the United States and was paid for 26 weeks, whereas in Holland unemployment pay averaged 75% of wages and lasted for up to 3 years. Higher replacement rates reduce the incentives for jobless people to actively seek work.
Strong labor unions, minimum wages, generous welfare benefits, and high taxes that are needed to finance them would explain why unemployment increases in correspondence with government outlays. This is an admittedly conservative interpretation, and it tells only part of the story. An additional factor for the higher unemployment in Western Europe is the significantly lower mobility of workers. This lower mobility may be a "culturally" determined factor, or the result of ill-designed retirement schemes. At any rate, mobility of labor cannot be increased overnight. Moreover, as paradoxical as it sounds, the high degree of education most West European workers received may actually turn out to be a liability for some, insofar as they are unwilling to accept low-paid jobs in service industries and would rather stay unemployed and draw social security benefits. These young jobless people are part of an increasing number of "privileged poor" in Western Europe.

Although the parameter of political dominance has the expected sign, it is not significant. Similarly, although inflation also displays the expected negative sign, the standard error is three times bigger than the coefficient.

The theoretically most important variables, popular cabinet support and consensus democracy, also perform very well in the inflation model. Both variables have the expected sign and are significant at the .01 level. This provides strong evidence that consensual constitutional structures that enable broad-based participation in the governing process significantly affect the rate of inflation. The wider popular cabinet support and the more consensual political institutions are, the more "responsible" governments behave.

The parameter for political dominance indicates that as partisan coloration moves to the Left, inflation increases. This is consistent with the "party-does matter" hypothesis because leftist governments tend to be more inclined to spend than conservative governments, which should affect the rate of inflation. Also, the statistically significant OPEC dummy variable displays the expected sign. Inflation was on average 2.69% higher in the period from 1974 to 1982 than in any other periods covered in this study. Economic openness and government outlays do not seem to affect the level of inflation. Unemployment, however, influences inflation in the hypothesized way. An increase of 1 percentage point in unemployment decreases inflation by .31%, ceteris paribus, indicating that the "twin-evils" are still connected despite a breakdown of the Phillips curve in the 1970s and 1980s. The adjusted $R^2$ for the unemployment model is .75.

All of the models described so far have assumed that the relationships between the variables are linear and additive. However, closer visual inspection of a scattergram of popular cabinet support and inflation revealed that the relationship may not be linear but, in fact, quadratic. Thus the model was tested by squaring popular cabinet support and adding it to the model. The
results revealed that both parameters, popular cabinet support (linear) and popular cabinet support (quadratic), are statistically significant at the .05 level. Whereas the sign for linear popular cabinet support is negative, the sign for quadratic popular cabinet support is positive. Earlier studies of the effects of corporatism on macroeconomic performance have also suggested that the relationships may be quadratic rather than linear (Alvarez, Garrett, & Lange, 1991; Calmfors & Driffl, 1988; Heitger, 1987).

How can the coefficient for popular cabinet support² be explained? Countries with low popular cabinet support attempt to increase it by generous spending programs, which manifests itself in higher inflation. On the other hand, countries that enjoy high popular cabinet support also face comparatively high inflation rates because the various cabinet parties attempt to be responsive to their constituents, leading to an increase in public spending as a result of coalition bargains in which every party tries to satisfy its constituency. Party A agrees on increases in spending for other parties only if they agree on increased spending for party A, leading to an increase in overall public spending, which again manifests itself in high inflation. Only when popular cabinet support is at a “secure” level where governments are neither forced to “prime the pump” nor swamped with increasing demands from the various cabinet parties’ constituencies, can they create “responsible” economic policies that keep inflation in check. Thus popular cabinet support may have negative consequences when it is too little and when it is too much! The independent variables in the inflation model can explain 47% of the variation of the dependent variable (adjusted $R^2$).

Table 3 examines the impact of our model on economic growth and on the level of industrial disputes, operationalized as working days lost.

In the economic-growth model, popular cabinet support and consensus democracy are not significant. As expected, the OPEC dummy variable displays a negative sign indicating that on average during 1974 and 1982, economic growth was 1.43% lower than in other periods covered in this article. The negative coefficient of .27 of political dominance indicates that as governments become more leftist, economic growth declines by .27 percentage points. This conflicts with the finding of Friedland and Sanders (1985) who argued that economic growth is not systematically linked to political partisanship. It is quite unlikely that economic growth is less important to leftist governments than to more conservative governments. However, it may be that the bigger concern of redistribution rather than production of leftist governments provides less incentives for business to

6. The other models were also tested for this quadratic relationship between popular support and macroeconomic outcomes. Inflation was the only dependent variable where the result was statistically significant.
Table 3

<table>
<thead>
<tr>
<th></th>
<th>Economic Growth</th>
<th>SE</th>
<th>Working Days Lost</th>
<th>SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Popular cabinet support</td>
<td>-0.003</td>
<td>(0.017)</td>
<td>-1.28</td>
<td>(0.82)*</td>
</tr>
<tr>
<td>Consensus democracy</td>
<td>0.17</td>
<td>(0.21)</td>
<td>-39.95</td>
<td>(13.57)***</td>
</tr>
<tr>
<td>Political dominance</td>
<td>-0.27</td>
<td>(0.11)***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPEC* dummy</td>
<td>-1.43</td>
<td>(0.39)***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic openness</td>
<td>0.004</td>
<td>(0.009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government outlays</td>
<td>-0.067</td>
<td>(0.024)***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic growth (t - 1)</td>
<td>0.16</td>
<td>(0.08)***</td>
<td>256.49</td>
<td>(101.18)***</td>
</tr>
<tr>
<td>Italy (dummy variable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working days lost (t - 1)</td>
<td></td>
<td></td>
<td>0.21</td>
<td>(0.091)**</td>
</tr>
<tr>
<td>Intercept</td>
<td>6.71</td>
<td>(1.44)**</td>
<td>145.40</td>
<td>(51.25)***</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.29</td>
<td>.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.26</td>
<td>.24</td>
<td></td>
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</tr>
<tr>
<td>df</td>
<td>153</td>
<td>154</td>
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</tr>
</tbody>
</table>

Note. Data on economic growth are from the Organization for Economic Cooperation and Development’s (OECD) Economic Outlook (various editions) and from the United Nations (1957, 1961) Statistical Yearbook. Data on working days lost are from the International Labour Office’s Yearbook of Labour Statistics (various editions).

a. OPEC = Organization of Petroleum Exporting Countries.

*significant at the .1 level; **significant at the .05 level; ***significant at the .01 level (one-tailed tests).

invest. As a result of the strong commitment of leftist governments to expand or at least maintain the “welfare state,” taxes have risen in these countries to levels that are counterproductive to the interests of capital (Bernholz, 1982; Weede, 1986). This debate closely mirrors the debate above on the reasons for the negative impact of government outlays on unemployment. Although these are plausible assumptions, Korpi (1985), Saunders (1985), McCallum and Blais (1987), and Rothschild (1982) did not find evidence that the welfare state has a retarding effect on economic growth.

Nevertheless, this study finds additional support that leftist governments and their preferred generous welfare payments adversely affect economic growth. The highly significant negative coefficient for government outlays indicates that as government outlays increase, economic growth decreases. In addition, the size of government outlays varies systematically with political dominance.7 Economic growth is thus affected by the impact of leftist

7. In a simple regression, political dominance is positively related to government outlays, indicating that as partisan coloration shifts to the Left, government outlays increase in a statistically significant manner (coefficient = 2.168, SE = .538, t test = 4.033).
governments on government outlays and its effects on economic growth. This indicates evidence that social democratic welfare states have reached levels of development that adversely affect economic growth. Twenty-six percent of the variation of economic growth can be accounted for by the independent variables.

Finally, the effects of popular cabinet support and consensus versus majoritarian constitutional structures on working days lost are examined. The “working days lost” model in Table 3 reveals that popular cabinet support and consensus-oriented constitutional structures affect the dependent variable in the hypothesized direction, that is, both parameters significantly reduce the number of working days lost. Because the additional control variables political dominance, the OPEC dummy variable, economic openness, and government outlays did not affect the dependent variable, it was decided not to report these findings. However, the comparatively high strike rates in Italy necessitated “controlling” for Italy by using an “Italy-dummy” variable. The “working days lost” model can explain 24% of the variation of the dependent variable.

CONCLUSION

The purpose of this article was to investigate whether formal constitutional structures have a systematic effect on macroeconomic outcomes and the number of industrial disputes. The two central independent variables were

8. Using an “Italy dummy variable” effectively removes Italy from the sample. However, even if Italy is retained in the sample and not “controlled” for, the parameters for popular cabinet support and consensus democracy still remain significant. Because visual inspection of the scattergram revealed Italy’s observations to be dramatic outliers, it was decided to control for Italy’s effect on the parameter estimates. Still, neither omitting Italy nor leaving it in the sample “drives” the model. The high-strike rates in Italy have their origins in the student and labor unrest that overran Western Europe in the late 1960s culminating in the “hot autumn” in 1969. From the mid-1950s throughout the 1960s Italy’s economy grew dramatically without a corresponding growth in wages. “Most workers simply wanted a share of the enormous economic growth of the preceding 15 years and protection against exploitation” (Spotts & Wieser, 1986, p. 201). After the “hot autumn” and increased cooperation between the two formerly antagonistic trade unions, the Italian General Confederation of Labor (CGIL) and the Italian Confederation of Workers’ Unions (CISL) Italian strike rates increased dramatically, leading to remarkable increases in wages and fringe benefits as well as shorter hours. According to Spotts and Wieser (1986), wages rose by an average of 25% a year throughout the 1970s. At the same time, Italy between 1970 and 1977 was at the top of the European strike record. The decline of the traditional antagonism between the two major union confederations explains to a large extent their capacity for collective action in the form of organized and widespread strikes during the 1970s and early 1980s.
(a) Lijphart and Crepaz's (1991) measure of consensus democracy and (b) a separate but complementary measure, popular cabinet support. The empirical analysis provides strong evidence that the more consensual the constitutional structure is, the more favorable will be the macroeconomic outcomes. Similarly, the wider the popular support of governments, measured as the sum of popular votes for parties that are cabinet parties, the more "responsible" the public policies of governments. This finding is consistent with Olson's theoretical claim that encompassing organizations should behave more responsibly because they have more of an incentive to "internalize the externalities" of collective action. Lijphart and Crepaz's formal concept of "consensus democracy" has a strong affinity to Olson's theoretical concept of "encompassing organizations," although there are drastic differences in their respective empirical operationalizations. In terms of outcomes of these formal constitutional structures, the empirical measure of popular cabinet support fittingly captures Olson's notion of encompassing organizations because higher popular cabinet support tends to indicate multiparty coalition governments, "encompassing" larger parts of the electorate than lower popular cabinet support, which is usually indicative of single-party bare majority cabinets. If, according to Olson, "encompassing organization" means a majority of voters, not just seats in a legislature, the coalition cabinets and their usually higher popular cabinet support come closest to this for Olson so crucial concept.

This article also shows that Olson's empirical operationalization ("strong two-party systems") of encompassing organizations is flawed. Because central elements of consensus democracy are PR, multiparty systems, and executive power sharing, this article indicates that the conventional wisdom that strong two-party systems and single-party, bare majority cabinets produce more "favorable" policies is mistaken. The empirical findings indicate that weak multiparty parliamentary governments combined with proportional electoral systems are more responsive to the wishes of the electorate than decisive, "Westminster-type" of two-party systems. The results of this article are more consistent with Finer's (1975, 1980) analyses of the positive impact of PR and multiparty constitutional structures on macroeconomic outcomes.

Popular cabinet support and consensual rather than majoritarian policies have an unemployment-reducing effect. However, the inflation model showed that the relationship between popular cabinet support and inflation shows both a significant, negative linear coefficient (as hypothesized) and also a significant, quadratic coefficient. The latter finding is particularly puzzling because the U-shaped function indicates that both too little and too much popular support could adversely affect inflation. An admittedly ad hoc
explanation is that inflation is best contained where popular cabinet support is at a medium level, not too low on one hand but not so extensive that cabinets are crushed under the cascading demands of various parties attempting to please their constituencies by driving up spending and, thus, inflation. On the other hand, in countries with single-party, bare majority cabinets where popular cabinet support tends to be low, governments are tempted to gain support by increased public spending, which tends to drive up inflation. As speculative as this explanation is, it might spark further research into this question.

Economic growth appears to be unaffected by the size of popular cabinet support and consensus democracy. The OPEC dummy variable, partisan coloration, and government outlays were better predictors for the rate of economic growth. With respect to the variable "working days lost," popular cabinet support and consensus democracy have a reducing effect on strikes and lockouts. The inclusive and accommodative nature of consensual constitutional structures tends to produce more peaceful industrial relations than exclusive and majoritarian systems. Overall, this article provides evidence that macroeconomic outcomes and industrial disputes vary systematically with the type of consensual and majoritarian type of democracy. This finding is not only relevant for the modern, industrialized democracies; it is also relevant for the newly democratizing countries in Eastern Europe and Latin America, which could draw valuable lessons from the West European experience.

REFERENCES


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