Constitutional structures and regime performance in 18 industrialized democracies: A test of Olson’s hypothesis

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Abstract. According to Olson’s concept of encompassing organizations, strong two-party, plurality oriented political systems should create more ‘responsible’ public policies than ‘weak’ multi-party governments based on proportional representation. An empirical measure of ‘encompassment’, termed popular cabinet support, is developed and tested in a multivariate controlled statistical analysis of 18 industrialized democracies. While Olson’s theoretical concept of encompassing organizations appears to hold, his empirical operationalization, namely, strong two-party systems based on plurality electoral rules, does not. The findings reveal that the alternative measures of ‘encompassment’, popular cabinet support, significantly reduces the rate of unemployment and inflation, indicating that the wider the popular support base of government, the more responsibly these governments behave.

Introduction

In the literature on comparative regime performance there are two theoretical strands which lead to contradictory conclusions on the relative impact of different institutional structures on public policy. Mancur Olson (1982, 1986a, b) and others argue that winner-take-all two-party systems (‘Westminster style’), produce more ‘responsible’ outcomes since centralized two party systems are more ‘encompassing’ than multi-party systems. The rationale behind Olson’s argument is that the more encompassing parties become, the more their interest and the ‘general interest’ converge, and thus, the more dysfunctional it becomes to ‘unload’ the externalities of one party’s action onto members of another party. Thus, as a result of their wider ‘encompassment’ these institutional systems have the capacity to ‘internalize the externalities’ of their collective action. Therefore, they tend to behave more responsibly by minimizing redistributive policies favouring particular groups, and supporting policies which are more likely to approximate the ‘general interest’.

In direct opposition to Olson’s concept is the rationale of Lijphart (1993), Powell (1982), Baylis (1989), and others. They stress the advantages of multi-party coalitions, of a consensual, inclusive, and accommodative decision-making as opposed to the competitive, exclusionary institutional structure of the majoritarian or Westminster type. The advantages of consensual political structures are that policies are more carefully deliberated, more perspectives are weighed and taken into consideration and a larger number of options
are examined than in a single party majoritarian system. Different societal groups have an opportunity to take part in the creation of policy. But advantages of this 'collegial' institutional structure should not only be found in the process of policy creation but also policy implementation. Once policies have been agreed upon, they should be more efficiently and effectively implemented in a collegial system precisely because they rest on widespread support of various groups in society.

The central difference between Olson and those who favour consensual decision making is his concept of 'encompassing organizations', applied to political parties. 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: 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' (1986b: 168). What the USA and UK have in common is, of course, either a plurality or majority electoral system that tends to yield two-party systems. An encompassing organization for Olson, then, is a party in a two-party system which commands close to, or even more than half of the votes. Such parties should create more 'responsible' public policies: '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' (Olson 1986b: 169).

While Olson's theoretical proposition is quite intriguing, he is mistaken to believe that two party systems create a 'majority of voters'. For instance, in the British case he explicitly mentions, none of the parties ever commanded a majority in popular votes since 1935. Surely, the Conservative Party and the Labour Party alternately had received majorities in terms of seats. However, this is an artifact of the influence of the electoral system leading to considerable inequalities in the allocation of votes and seats in the British case.

In parliamentary-PR systems, the situation is different. In such systems coalition governments are usually necessary to achieve majorities in the respective legislatures. However, since PR is a much finer instrument to convert 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. Thus, 'encompassing organizations' measured in Olson's own terms as a 'majority of voters' can actually be found in the sum of voters who voted for the parties which carry governmental responsibilities. Since the coalition government aims to please all parties and their voters which are part of the coalition, the government has an even higher incentive to internalize the externalities of collective action than in the case of a bare majority single cabinet party. Thus, parliamentary-PR systems and their ensuing coalition governments are defined as being more 'encompassing' than their bare majority counterpart.

This need not damage Olson's general argument. It may very well be, that
coalition governments represent the 'critical mass' which is necessary to create and implement minimally redistributive policies (in Olson's sense) in which the interest of the 'encompassing organization' (the government coalition) approximates the 'general interest'. This study argues that a 'true' encompassing organization is measured by the sum of the popular votes for parties which make up a coalition government with the goal to produce unified public policy rather than an a single party, bare majority cabinet with a majority in the legislature but not with a majority of popular votes. If 'encompassing organization' is defined in this way, it comes very close to Lijphart's concept of consensus democracy (1984) which is inclusive and accommodative in nature. This study will present an index of 'encompassment' measured in terms of popular cabinet support.

This debate brings us to the crucial question of constitutional structures and how they shape not only incentives and strategies of political actors but also public policy outcomes. The central task of political institutions is to convert latent private ambitions into actual public policies. Political institutions represent the 'transmission belt' by which this transformation is to be accomplished. A successful institutional structure is one which combines two seemingly contradictory features: on the one hand it must create stability but not rigidity; on the other hand it must remain flexible but must not degrade into disorder. Depending which of these two features a constitution emphasizes, different political styles emerge.

The pivotal question this article attempts to answer is: do political institutions matter? Is there a systematic variation in political, economic or other policy fields which can be directly attributed to the idiosyncratic constitutional structures of various countries? The purpose of this article then, is to investigate whether majoritarian versus consensual political institutions lead to measurable differences in political, economic and environmental performance. If they do, these findings are of utmost relevance not only for political scientists but also for constitutional engineers and political decision makers.

With regard to the impact of constitutional structures on public policy outcomes, two kinds of relevant institutional structures can be discerned in modern democracies. The first refers to the type of executive-legislative relations, that is, to whether these relations are of a presidential or parliamentary nature. There are two defining differences between presidentialism and parliamentarism that may have drastic consequences for the political, social, and economic performance of various democracies. First presidents are chosen for a fixed term of office in a direct election by the electorate. Second presidents are independent of the legislature. The legislature cannot remove them from their post. Once in power presidents normally stay there until their term is up. Executive – legislative relations in a presidential system are characterized by independence and separation of the executive from the legislature.

The second central institutional difference which affects public policy outcomes is the electoral system. This is the constitutional rule which governs
how votes are converted into seats. While the only case of presidentialism (USA) combines with a plurality electoral system, parliamentary systems need to be further distinguished between parliamentary-PR (most of continental Western Europe) and parliamentary-plurality systems (Canada, UK, Australia, New Zealand until 1994). The single member district (SMD) system, or 'winner-take-all' system ensures a seat only for the party which has received either a majority or a plurality of the votes. No other party is represented. PR on the other hand, allows representation of various parties in a district in correspondence to the popular vote shares they have received. Therefore, the type of electoral system affects a central part of a political system, which is the number of parties represented in the lower legislative houses.

The debates over the vices and virtues of the SMD system versus PR are well known. The proponents of the plurality electoral system claim that it has a centralizing and moderating influence on the polity; in addition, it is argued that it increases political stability and ensures accountability. Proponents of PR claim that it is more democratic, fairer and can prevent civil disorder and ethnic/cleavage structures. The debate and confusion of the pros and cons of the two electoral systems is exemplified by a headline in the Economist (1 May 1993) which included a feature on electoral systems. It reads: 'Good government? Fairness? Or vice versa. Or both'.

Ernest Barker (1942: 79) has acutely described both the strengths and weaknesses of proportional representation:

The purpose of proportional representation, from this point of view, is to clarify, and by clarifying to magnify, the voice of the electorate. The electorate will no longer speak, as it were, in a thick and husky voice: it will speak in clear and distinct accents, which can be nicely calculated and exactly recorded. Just for that reason, its verdict will carry a greater weight and exercise a more decisive influence: the vox populi, being a vox clara, magna erit et praevalebit. But he also warned that: 'And why the electorate may thus be exalted, parliament and the cabinet may be simultaneously depressed – the former by being made too tessellated and balanced for effective debate, and the latter by becoming too composite, and too much of a coalition for any effective decision'.

A well known critic of the adversarial policy style was S. E. Finer. Referring to the parliamentary party style in the British House of Commons, Finer (1980:10) states '. . . the goal of the opposition is simply expressed: it is, and is seen to be, the alternative government. As such it does everything in its power to turn the government out and put itself in its place. There is an old Spanish proverb that expresses this role exactly: Dejame tu para ponermi yo – 'Get out so that I can get in . . . [T]he opposition and the government parties are zero-sum competitive...In short, the entire tradition of politics in the House is adversary'.
Finer's argument is that the electorate itself is fairly moderate, but, as a function of a majoritarian institutional structure, the electorate becomes artificially polarized. As a result, the electorate '... tends to have policies rammed down its throat with which it does not agree' (Robertson 1984: 217). A recent example is the poll tax. Without much reflection and debate Thatcher decided to levy a flat tax on every British citizen. Even conservatives were outraged and in the spring of 1990 mass protest against the poll tax erupted into rioting in central London, producing extensive property damage and looting.

Parliamentary systems, combined with proportional representation are consistent with Lijphart's concept of consensus democracy. Such countries are likely to have multi-party systems, coalition governments and more balanced executive-legislative relations. Unipersonal presidential systems such as the USA and parliamentary-plurality systems are consistent with majoritarian democracy. Such countries tend to have two-party systems, one party cabinets and a more dominant executive compared to the legislature. The main question this study is answering is: does it matter in terms of actual political, economic, social or other outcomes, whether a country is majoritarian or consensus oriented?

**Hypotheses, research design, data, and findings**

This article presents a measure of 'encompassment' of political institutions which is operationalized as 'popular cabinet support'. It measures the percentage of popular support of cabinet parties, be they single party or coalition party cabinets. For coalition cabinets, 'popular cabinet support' is defined as the sum of the percentage of voters who have supported parties which, after coalition negotiations, became cabinet parties. The conceptualization of the indicator 'popular cabinet support' 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 (Taylor & Laver 1973; De Swaan 1973). Lijphart (1984: 53) interprets 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'.

The measure 'popular cabinet support' assumes that a multi-party cabinet can be treated as a unitary actor, or as a collective body which makes collective decisions. Laver & Shepsle (1994: 299) have shown that most multi-party coalition cabinets indeed operate on the basis of a doctrine of collective cabinet responsibility mostly based on a principle of consensus. There are two ways to achieve this consensus within multi-party cabinets.
First it needs to be built and, second, it has to be called. The ‘building of consensus’ is facilitated by compartmentalizing responsibilities according to fields of expertise, stating support of general policy guidelines hammered out in ‘coalition agreements’, principles of reciprocity, and the emergence of norms such as *pacta sunt servanda* (pacts must be honoured) (Timmermans 1994). In the Netherlands, where multi-party coalitions are prevalent, the government agreement consists of statements agreed between cabinet ministers and parliamentary coalition parties. This government agreement ‘. . . is a written “treaty” between parliamentary parties on future politics and seriously constrains the ability of ministers to make policy’ (Andeweg & Bakema 1994: 68).

The ‘calling’ of the consensus is usually reserved to the prime minister, or chancellor. After extensive discussion of an issue among the coalition partners, the prime minister states whether a consensus has been reached or not. If not, the discussions among the partners will continue. ‘If nobody demurs from the prime minister’s summing up, then this becomes the collective cabinet decision’ (Laver & Shepsle 1994: 300). The country studies contained in the Laver & Shepsle (1994) edited volume, describe the various ways in which both, formal and informal institutions enable cabinets to act collectively. Whether this is consistent with the authors’ preferred portfolio-allocation approach is not relevant for this study.\(^{10}\)

Since this study attempts to analyse ‘encompassing organizations’ and their policy impact, what is relevant is to see whether popular cabinet support is higher in parliamentary-PR systems than in parliamentary-plurality systems and thus whether Olson’s logic withstands this 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 and/or produce policy.

When ‘encompassing organizations’ are defined in terms of the popular support for cabinet parties, parliamentary-PR systems are more encompassing than parliamentary-plurality systems. All of the parliamentary-plurality countries are classical two-party systems. Nevertheless, they are less encompassing in terms of popular cabinet support than parliamentary-PR systems, clearly contradicting Olson’s claim. Table 1 shows that parliamentary-PR systems indeed enjoy higher popular cabinet support than parliamentary-plurality systems.

The literature review and the debate above have isolated the most important dependent variable in our analysis. First to be estimated is the impact of ‘encompassing organizations’, using the measure ‘popular cabinet support’, on crucial macroeconomic variables such as unemployment, inflation, and a combined index of unemployment and inflation commonly known as the ‘misery index’. These three variables are typical ‘outcome’ variables and traditionally used in estimating the impact of various formal or informal political institutions on macroeconomic performance. In correspondence with Olson’s logic, it is hypothesized that the higher popular cabinet support the lower unemployment, inflation, and the misery index since the incentives to
Table 1. Median and mean percentage of popular cabinet support (1945–1987) for parliamentary-PR, parliamentary-plurality, and 'other' democracies

<table>
<thead>
<tr>
<th>Category</th>
<th>Median</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Parliamentary-plurality system:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia, Canada, New Zealand, UK</td>
<td>45.69</td>
<td>45.10</td>
</tr>
<tr>
<td>2. Parliamentary-PR systems:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria, Belgium, Denmark, Finland, Germany, Italy, Netherlands, Norway, Sweden</td>
<td>57.68</td>
<td>56.30</td>
</tr>
<tr>
<td>3. 'Other' democracies:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France, Ireland, Japan, Switzerland, USA</td>
<td>52.28</td>
<td>55.46</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 semi-presidential system; Japan uses a semi-proportional electoral system (single non-transferable vote); the USA 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).

redistribute wealth decrease as the degree of encompassment increases. These hypotheses will be tested by including three additional control variables, the partisan composition of the government, economic openness, and the degree of corporatism.

However, before the empirical tests are performed it is necessary to shed some light on the relationship between Lijphart's and Crepaz's (1991: 245) measure of consensus democracy and the degree of encompassment. Consensus democracy refers to the constitutional structure of a political system. 'Encompassment', operationalized in terms of popular cabinet support is an outcome of a given constitutional structure. Consensus democracy is thus prior to encompassment. Although in statistical terms both measures are related (Pearson's $r = 0.581$) it is important to keep this temporal aspect in mind. Figure 1 indicates that the more consensus oriented an institutional structure is, the wider its encompassment, measured in terms of popular cabinet support.

The low degree of encompassment of Denmark and Sweden are surprising since they are parliamentary-PR countries. The reason of course is that between 1945 and 1980, minority cabinets were in power in both countries 68 percent (Lijphart 1984: 61) of the time, which explains their narrower support base. Similarly, in Norway 14 out of the 23 administrations (60 percent) between 1945 and 1992 were minority governments (Strom & Leipart 1993: 872). In reality, however, their support base is likely to be wider than Figure 1 suggests, because minority cabinets govern with the help of so-called 'support parties', which support the cabinet on one issue or another. However, in terms of practical measurement, it is very hard to precisely say what the true support of a minority cabinet was. What can be said with certainty is that, in reality, popular cabinet support for Danish and Swedish
governments is higher than the numbers in Figure 1 suggest, which would make the relationship between degree of encompassment and consensus democracy even stronger. However, as a result of this intractable measurement problem, only the popular support of official cabinet parties is reported here.

Based on Olson's logic of encompassing organizations, we should expect governments with wider popular support to behave more 'responsibly' than governments with smaller popular support. The constitutional structure of consensus or majoritarian democracy produces wider or narrower popular support bases which in turn, according to Olson, should affect governmental policies. Testing this hypothesis will be the task of the next section.

The degree of encompassment and macroeconomic outcomes

Table 2 contains the central predictor variable in this study, the degree of encompassment, measured in terms of popular cabinet support. In addition, three dependent variables are also reported, unemployment 1965–1988, inflation 1961–1988 and the corresponding 'misery index'.

Popular cabinet support is a measure of 'encompassing organizations' since it represents the popular support a particular coalition government enjoys. The wider that support, the higher the incentive for individual parties to reduce redistributive policies. Although multi-party coalitions are in general shorter lived, they tend to collectively, represent a higher number of voters
Table 2. Popular cabinet support (1945–1987), unemployment 1965–1988, inflation (1961–1988), and the misery index for 18 industrialized democracies

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Australia</td>
<td>46.33</td>
<td>4.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Austria</td>
<td>73.34</td>
<td>2.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>58.67</td>
<td>6.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Canada</td>
<td>42.49</td>
<td>7.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Denmark</td>
<td>41.16</td>
<td>6.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Finland</td>
<td>67.02</td>
<td>3.9</td>
<td>7.8</td>
</tr>
<tr>
<td>France</td>
<td>52.28</td>
<td>5.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Germany</td>
<td>57.68</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Ireland</td>
<td>48.02</td>
<td>9.8</td>
<td>9.2</td>
</tr>
<tr>
<td>Italy</td>
<td>51.85</td>
<td>7.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Japan</td>
<td>48.71</td>
<td>1.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>64.80</td>
<td>2.1</td>
<td>9.3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>46.53</td>
<td>5.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Norway</td>
<td>44.25</td>
<td>2.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>47.93</td>
<td>2.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Switzerland</td>
<td>74.39</td>
<td>1.4</td>
<td>3.9</td>
</tr>
<tr>
<td>UK</td>
<td>45.05</td>
<td>6.3</td>
<td>8.1</td>
</tr>
<tr>
<td>USA</td>
<td>53.91</td>
<td>6.1</td>
<td>5.1</td>
</tr>
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</table>


and particularly a pool of voters for parties which are always in government. Actual public policy need not be adversely affected by frequent changes in coalition governments.

In fact, multi-party coalitions may actually provide more stable, steady, continuous, and more predictable forms of government than do two-party systems with alternating governmental responsibilities. The scale of change in public policy is larger in two-party systems when parties alternatively become governing parties than in multi-party governments where one or two minor coalition parties are exchanged with other minor coalition parties. Therefore, it may well be that coalition cabinets represent a more steady, continuous, and predictable policy path than cabinets in a two-party system. These hypotheses are consistent with Powell’s empirical finding that ‘coalition or minority governments were much less likely to manipulate the economic cycles for electoral advantage than were those in countries with single party majorities or presidential executives’ (Powell 1982: 224). Powell’s observation
can be taken as an additional indication that coalition governments behave more 'responsibly' rather than single party majority cabinets. Since it is more difficult to manipulate the economy for short term political gains in coalition governments than in single party majority cabinets, the more responsible behaviour of coalition governments is more a function of necessity rather than virtue. Nevertheless, what counts is the steadiness and predictability of public policy.

To be successful, many policies, such as environmental policies, need to be pursued over a lengthy period of time. In a two-party system, where governmental responsibility alternates regularly between two parties with very different views on how to resolve environmental problems, policy is bound to get bogged down by fits and starts. When the other party comes to power, energy, resources, and time are spent at reversing the policy path of the previous party leading to premature stops and false starts. Multi-party coalitions, however, where one or two parties are always part of the coalition, ensure steadiness, stability, and predictability of policy.

Table 3 provides evidence that the size of popular cabinet support varies positively with macroeconomic outcomes, such as unemployment, inflation, and the combination of both – the so-called misery index. In the bivariate model the variable popular cabinet support has a statistically significant impact on unemployment and on the 'misery index' at the 0.05 level. The relationship is in the hypothesized direction. Inflation is also affected by the percentage of popular cabinet support. The coefficient has the expected sign and is significant at the 0.1 level.

In the multivariate context, three additional control variables are introduced. The literature on determinants of macroeconomic outcomes suggests that the partisan complexion of the cabinet (Kirschen 1964; Hibbs 1977) significantly affect macroeconomic outcomes. Kirschen and Hibbs argue that unemployment should be lower (and inflation should be higher) when social democratic parties are in power while inflation should be lower (and unemployment should be higher) when conservative parties are in power.

Second, economic openness is another predictor of macroeconomic outcomes. Katzenstein (1985), Cameron (1978), and Rogowski (1987), argue that small, open economies are dependent on the fluctuations of the international business cycles. Thus, the more open these economies, the more their domestic economic policies are overridden by exogenous economic developments.

Third, Crepaz (1992), Schmidt (1982), Schott (1984), Cameron (1984) and others have argued that the system of interest representation also affects macroeconomic outcomes. According to these authors, corporatist countries tend to produce more favourable macroeconomic outcomes than pluralist ones; that is, corporatist countries should display lower levels of unemployment and inflation than pluralist ones.

Closer inspection of the multivariate models (equations 4–6) in Table 3 indicates that popular cabinet support remains statistically significant at the
Table 3. Simple and multivariate ordinary least squares regressions with heteroskedasticity consistent, 'robust' standard errors. For the bivariate equations 1–3 the independent variable is 'popular cabinet support'. Multivariate results are reported in equations 4–6. For equation 4 the dependent variable is unemployment; for equation 5 the dependent variable is inflation, and for equation 6 the dependent variable is the misery index

<table>
<thead>
<tr>
<th>Unemployment</th>
<th>Inflation</th>
<th>Misery index</th>
<th>R²</th>
<th>Adj. R²</th>
<th>Intercept</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. -0.109</td>
<td>-0.053</td>
<td>0.23</td>
<td>0.22</td>
<td>0.7</td>
<td>10.57</td>
</tr>
<tr>
<td>2. -</td>
<td>-0.053</td>
<td>-0.22</td>
<td>0.08</td>
<td>0.03</td>
<td>9.35</td>
</tr>
<tr>
<td>3. -</td>
<td>-0.162</td>
<td>0.23</td>
<td>0.18</td>
<td></td>
<td>19.92</td>
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<table>
<thead>
<tr>
<th>Popular cabinet support</th>
<th>Dominant political tendency</th>
<th>Economic openness</th>
<th>Corporatism</th>
<th>Adj. R²</th>
<th>Intercept</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. -0.061</td>
<td>-0.93</td>
<td>0.056</td>
<td>-4.06</td>
<td>0.52</td>
<td>6.34</td>
</tr>
<tr>
<td>(0.04)*</td>
<td>(-0.63)*</td>
<td>(0.02)**</td>
<td>(1.16)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. -0.052</td>
<td>0.66</td>
<td>0.026</td>
<td>-1.05</td>
<td>0.00</td>
<td>7.29</td>
</tr>
<tr>
<td>(0.034)*</td>
<td>(0.69)</td>
<td>(0.018)*</td>
<td>(1.09)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. -0.11</td>
<td>1.59</td>
<td>0.083</td>
<td>-5.12</td>
<td>0.37</td>
<td>13.63</td>
</tr>
<tr>
<td>(0.06)*</td>
<td>(0.77)**</td>
<td>(0.026)**</td>
<td>(1.70)**</td>
<td></td>
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</tbody>
</table>

Note: ** = significant at the 0.05 level; * = significant at the 0.1 level. One tailed tests. Standard errors in parentheses. Since N is only 18, the equations may be sensitive to individual observations. Therefore, all equations were tested for outliers by obtaining the studentized residuals (residuals divided by their estimated standard deviations), for leverage points by obtaining the diagonal elements of the 'hat' matrix, and for a combination of both, outliers and leverage points, by examining Cook's 'D' statistic. None of the equations in Table 3 displayed any statistical anomalies. Data on 'dominant political tendency 1945–1990' are from Manfred Schmidt (1992), Politisches System und Politikfelder: Westliche Industrieländer (Beck Verlag, Munich). These data represent a 5 point scale ranging from 1 = bourgeois hegemony, 2 = bourgeois dominance, 3 = balance, 4 = social democratic dominance, 5 = social democratic hegemony. Data on 'economic openness' (foreign trade as a percentage of GDP) are taken from Ronald Rogowski (1987), Trade and the variety of democratic institutions, International Organization 41: 203–223, p. 215. Data on corporatism are from Frederic L. Pryor (1988), Corporatism as an economic system: a review essay, Journal of Comparative Economics 12: 317–344, p. 326.

0.1 level for two out the three multivariate equations even if controlled for by measures of partisan complexion of governments, for measures of economic openness, and for the type of interest representation. In equation 4 which predicts the level of unemployment, a one percentage increase in popular cabinet support leads to a reduction of unemployment by more than 0.06 percentage points. This coefficient is significant at the 0.1 level. The wider popular cabinet support, the lower the rate of unemployment. This presents strong evidence for Olson's thesis that more encompassing organizations have an incentive to behave more 'responsibly' than less encompassing organization – refraining from redistributive policies which favour some groups
more than others. All other predictors are also significant; particularly the control variables for economic openness and corporatism are highly significant, providing additional support for the theories of the authors mentioned above. Left wing parties and corporatism tend to depress unemployment while, the more open the economy, the higher the unemployment rate. The model can explain 52 percent (adjusted $R^2$) of the variance of the dependent variable.

With regard to inflation, popular cabinet support is also significant at the 0.1 level. There is also indication that economic openness affects the level of inflation in a positive fashion – the higher the level of economic openness the higher the level of inflation. When the combined index of unemployment and inflation, the 'misery index' is examined, a one percentage increase of the variable popular cabinet support reduces the misery index by 0.11 percent. Again, this proxy variable for 'encompassing organization' is significant at the 0.1 level in the presence of 3 additional control variables which are significant at the 0.05 level. A one unit increase of dominant political tendency to the left increases the misery index by 1.59 percent. As expected, economic openness varies positively with inflation. In addition, a one unit increase in corporatism significantly reduces the level of inflation. Thirty-seven percent (adjusted $R^2$) of the variation of the misery index can be accounted for by equation 6.

Table 3 provides strong evidence that 'encompassing organizations', defined in terms of popular support for coalition cabinets, do affect macroeconomic outcomes. The wider popular cabinet support, the less coalition governments can afford to push for narrow, group specific redistributive policies. These results indicate that multi-party coalition governments which in sum represent a higher percentage of the electorate, create more 'responsible' policies than single party, bare majority cabinets.

Conclusion

The purpose of this study is to investigate the effects of the size of popular support for governments on policy outcomes. According to Olson, institutional structures characterized by presidentialism or a parliamentary system with a winner-take-all electoral rule, and, thus, mostly two-party systems with single party, bare majority cabinets, should create more 'responsible' policies since such an incumbent catch-all party represents a large percentage of voters. Thus, an incumbent party becomes an 'encompassing organization' with little incentive to engage in redistributive policies since the interests of the incumbent party and the electorate as a whole do not deviate drastically.

Olson based his notion of 'encompassing organization' on the belief that a winner take all electoral system creates a majority of voters behind the government. Mostly, this is not the case. It does create majorities in legislatures but this is an artifact of the winner take all characteristics of the
electoral system distorting dramatically the transfer of votes into seats. If ‘encompassing organization’ means a majority of voters, not just seats in a legislature, then coalition governments come closest to this for Olson’s theory so crucial concept. Thus, in terms of operationalization, not in terms of its logic, Olson’s concept is turned on its head!

This paper suggests a definition and empirical measure of ‘encompassing organization’. An ‘encompassing organization’ is defined as the sum of popular support for parties which become governing parties in a coalition cabinet. Such a coalition government, is most likely based on a majority of voters, since PR systems more truly represent the popular support for various parties than winner take all systems. This measure for encompassing organization was called ‘popular cabinet support’ and is presented in Table 2. Empirically, it consists of the average of the sum of popular support for cabinet parties from 1945 to 1987 in 18 industrialized democracies.

The degree of encompassment also has measurable consequences. The empirical results are consistent with Olson’s theoretical concept. In a controlled, multivariate setting, popular cabinet support affects unemployment in a statistically significant manner. The broader popular cabinet support is, the lower the rate of unemployment and inflation. The ‘misery index’ is affected in a similar way.

These findings call into question the conventional wisdom that strong, centralized, ‘Westminster’ style political systems promote more ‘responsible’ public policies. The empirical findings of this study point into the opposite direction. The findings indicate that ‘weak’, multi-party parliamentary governments combined with proportional electoral systems are more responsive to the wishes of the electorate than ‘strong’, decisive two-party systems precisely because such governments rely on wider popular electoral support.

This evidence does not discredit Olson’s logic of ‘encompassing organizations’. In fact, employing my definition of ‘encompassing organizations’, the variable popular cabinet support provided empirical evidence of its impact on unemployment and the misery index. While there is strong evidence that Olson’s concept of ‘encompassing organizations’ indeed do lead to more ‘responsible’ policies, his operationalization of the theory is flawed.

These findings also point to a major lacuna in the empirical political economy literature as represented by Alvarez, Garrett & Lange (1991), Hicks & Swank (1992), Swank (1992), Lange & Garrett (1985), Garrett & Lange (1989) and many others. While many of those studies emphasized the effect of informal intermediary groups such as labour unions and employers organizations on macroeconomic outcomes, none of these studies took into consideration the effect of formal constitutional structures, and how these structures affect the degree of encompassment. This study attempts to fill this gap by investigating the effect of various degrees of encompassment on macroeconomic outcomes. The central task of this paper is to examine whether macroeconomic outcomes can be explained in terms of how narrow or wide the popular support base of government is. The results of this study
indicate that the wider the support base of government, the less redistributive (measured in terms of unemployment and inflation) its policies. The explanation is fairly straightforward: the more encompassing governments become, the more they tend to promote 'the general interest' because the more it coincides with their interest. The larger the amount of society which is encompassed by governing parties, the more dysfunctional it becomes to 'unload' the externalities of policy making on particular groups in society.

Casting the net even wider, these findings are tremendously relevant for both 'constitutional engineers' and scholars working on democratic theory for it is precisely here where both strands meet. If John Rawls (1971) is right, and justice indeed means fairness, constitutions must be designed in terms of their presumed effects. Inclusive constitutional structures, such as consensus democracy which in turn creates a wider popular support base for government, imposes 'fair' distributive policies, indicating that 'encompassment' matters.

Notes

1. For an critique of this particular argument, see Richard Jankowski (1993). Responsible, irresponsible and Westminster parties: A theoretical and empirical evaluation, *British Journal of Political Science* 23: 107–129. In addition, it is important to note that in this paper the core predictor variables are formal constitutional structures, while 'informal' political institutions such as corporatism, are treated as control variables. The literature on corporatism and its effects on macroeconomic, and other political outcomes is abundant. While corporatist structures are often treated as 'encompassing' (Scharpf 1984), the emphasis of this paper is Olson's attempt to apply the logic of encompassing organizations into the realm of political parties and formal constitutional structures.

2. The French case is actually an example of a semi-presidential system with a two-bloc party system.

3. For example, in 1983 general elections in the UK, 7.8 million votes produced 23 seats for the Alliance (SDP and Liberals); in contrast, the 8.5 million votes which went to Labour produced 209 seats. Bare majority single party cabinets usually do not represent a 'majority of voters' though they represent a majority of seats.

4. Employing Lijphart's (1984) terms, competitive and exclusionary political institutions may be termed 'majoritarian' or 'Westminster' while accommodative, and inclusionary political institutions may be termed consensual. Typical elements of a majoritarian government are concentration of executive power, asymmetric bicameralism, two party systems, two-dimensional party systems, a 'winner-takes-all' electoral system, and a unitary, centralized government. Typical elements of a consensus oriented government are that executive power is dispersed in the form of grand coalitions, multi-party systems, multi-dimensional party systems, proportional representation (PR), territorial and non-territorial federalism and a balance of power between the legislative chambers.

5. Currently, in political science there is much interest in 'neo-institutionalism'. It focuses on the use of institutions, such as formal rules, compliance procedures, and standard operating procedures to shape not only outcomes, but also strategies of social actors. Different institutions can dramatically alter outcomes. Authors such as Arend Lijphart and Peter Katzenstein argue that formal constitutional structures, such as whether a country employs a consensus model or the Westminster model of government can have direct consequences on how this country is able to manage its societal cleavage structure (Lijphart 1977).
Katzenstein (1985) also depends on institutions such as corporatism as explanatory factors which explain why small, open economies are able to cushion themselves from the ups and downs of the international business cycle. While Lijphart's and Katzenstein's use of institutions is of a functionalist character, the new institutionalism also comes in a rational choice variant where institutions are seen as important in solving collective action problems, agency problems, reducing transaction costs when the number of participants is high, coordinating cases of multiple equilibria, and in limiting principal-agent problems by overseeing, and enforcing of contracts (Alchian 1950; Arrow 1951; Pratt & Zeckhauser 1985; Bates 1988; Shepsle 1989; Powell & DiMaggio 1991; Zukin & DiMaggio 1990).

6. Executive authority in a parliamentary system is a derivative of the power distribution in the legislature, i.e., the executive in a parliamentary system usually represents the majority or plurality party in the legislature. The executive is not directly elected. Depending on the country the executive is either selected by the lower house or he/she may be 'asked' or appointed by the head of state to fulfil the function of primus inter pares. Second, the executive in a parliamentary system (in France called Premier, in Germany and Austria called Chancellor, in the UK called Prime Minister, in Ireland called Taoiseach) is dependent on continual support from the legislature which is empowered to unseat the executive by issuing a vote of no confidence. The executive, on the other hand, has the power (usually together with the head of state) to dissolve the legislature and call for new elections. The executive – legislative relations in a Parliamentary system thus could be described as a 'fusion' and as a 'symbiosis' between the executive and the legislature.

7. Different allocation rules such as the 'simple quota and largest remainders method', the 'Sainte-Laguë', 'Droop', or the 'd'Hondt' rule are used and yield slightly different outcomes. See, A. Lijphart, The political consequences of electoral laws 1945–85: A critique, reanalysis, and update of Rae's classic study. Presented at the XIVth World Congress of the International Political Science Association, 28 August to 1 September 1988, Washington, DC. However, more important in yielding proportional results than the allocation rule is the number of seats allocated to a district, the so-called 'district magnitude'. As a general rule, one can state that the larger 'M' (district magnitude) the more proportional the electoral system. See chapter 11 of R. Taagepera & M.S. Shugart, Seats and votes: The effects and determinants of electoral systems (Yale University Press, New Haven 1989).

8. According to Maurice Duverger's (1951) famous 'law' single member district rules favour two-party systems while PR encourages multipartism. Empirically, this 'law' has been largely confirmed although there are countries such as the UK which have more than two parties represented in its House of Commons, although the electoral rule is a single member district plurality system. The explanation for this lies in the fact that if political support for either of the two largest parties is geographically concentrated it is possible for these parties to gain representation as evidenced in the case of Plaid Cymru, the Welsh nationalist party and the Scottish nationalists (SNP). However, the presence of the Social Democratic Party and the Liberal Party in the House of Commons indicates that nationwide parties may be able to challenge the two main parties in a system which uses the single member plurality system. Still, the British party system could legitimately be called a two-party system since on average more than 90 percent of all the seats (93 percent in the 1987 election) are carried by the two largest parties, the Conservatives and the Labour Party.

9. Even the face to face seating arrangement in the British House of Commons suggests an adversarial style of confrontation as opposed to many other Parliaments in which the various members of political parties are seated in a half circle.

10. As a general hypothesis, cooperation between cabinet parties should be stronger if the coalition is a minimal winning coalition as opposed to an oversized coalition, where it is possible to shed a small party without endangering the whole cabinet. The bargaining power of small coalition parties depends on whether the coalition is minimal winning or oversized. In a minimal winning coalition cabinet, leaders of small coalition parties may find themselves in a rather powerful situation, receiving disproportionate concessions from the larger parties, while in an oversized cabinet, leaders of small parties need to compromise sufficiently with
the larger coalition parties to remain within the cabinet, yet must retain sufficient identity so as to not lose the support of their followers.

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