POLITICAL INSTITUTIONS AND FISCAL POLICY
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If Argentina were to abandon its presidential regime in favor of a parliamentary form of government, would that assist the adoption of sound economic policies? If the US were to switch its electoral rule from majoritarian to proportional, what would that do to the size of its budget deficit? More generally, what effects do constitutions—via fiscal policy—have on economic outcomes? For a long time these questions have remained unasked and unanswered, belonging as they do to a sort of no man's land between the academic disciplines of economics and political science. A few years ago, Guido Tabellini and Torsten Persson embarked on a research project to learn more about the effects of formal constitutional rules on specific economic policies. In this joint Econnet/Research Department policy seminar, Tabellini discussed the empirical results that the study has yielded thus far, many of which have been quite surprising.

As Tabellini pointed out, politicians do not make policy choices in a vacuum—the rules for election, legislation and execution determine their specific electoral incentives and powers to propose, amend, veto and carry out economic policies. In parliamentary systems, prime ministers face a confidence requirement, and it is in their interest to retain the support of those who brought them into power. Legislative coalitions are therefore fairly stable. In presidential systems, however, the executive survives without the support of the legislature, and this may create incentives to target spending to powerful minorities. Also, the right to propose legislation is controlled in different ways in the two systems. Whether an electoral system is majoritarian (winner-takes-all) or proportional has a strong impact on the incentives facing legislative and executive branches.

Tabellini and Persson therefore looked at both cross-sectional and panel data for a large set of democratic countries, studying the relationship between electoral rule (majoritarian vs. proportional) and type of government (presidential vs. parliamentary) on the one hand and a set of economic outcomes on the other (central government size, broad vs. narrow welfare spending, budget deficits, ability to adjust to shocks, and electoral cycles).

One of their central findings was the strong effect of electoral rules on fiscal policy. Majoritarian systems tend to bring about smaller governments, lower levels of welfare spending and more modest deficits compared to proportional systems. According to their cross-sectional data, a switch from proportional to majoritarian elections reduces overall

government spending by almost 5% of GDP, welfare spending by 2–3% of GDP, and budget deficits by about 2% of GDP. In terms of types of government, presidential regimes, they found, lead to smaller governments than parliamentary regimes.

With respect to how constitutional rules generate different responses to key economic and political events, they discovered that the cyclical adjustment of spending and taxes depends quite strongly on the form of government and electoral rule. Majoritarian governments are more likely to cut taxes in cyclical downturns. Governments elected under proportional rule (and parliamentary regimes), on the other hand, tend to let spending rise in a recession without scaling it down during booms, so that spending as a share of GDP displays a ratchet effect.

The effect of electoral cycles on spending is highly dependent on the type of constitution. Presidential regimes tend to postpone fiscal contractions until after elections. This makes sense as spending in presidential regimes tends to be more narrowly focused on powerful minorities, the support of whom could provide a necessary boost at the polls. In terms of electoral systems, one surprising finding was that majoritarian countries alone cut not only taxes, but also spending, ahead of the elections. Perhaps incumbent governments want to appear more frugal in the eyes of voters. In democracies with proportional elections, on the other hand, state welfare programs are expanded as elections approach, perhaps to seek re-election support from broad coalitions of voters.

Tabellini and Persson also explored the effects on constitutional rules of cultural and historical factors, such as proximity to the equator, percent of the population that speaks English, and former colonial powers. The record on these factors was mixed, but it seems that the closer countries are to the equator, the more likely they are to have presidential forms of government. Presidential regimes are also very common in Latin America, and one participant wondered if a factor could be that it is easier for presidential governments to access capital markets. As presidential systems tend to have stronger executives and weaker checks and balances than parliamentary ones, further study is merited on the potential implications for Latin American economic policies.

Guido Tabellini is the President of IGIER (Innocenzo Gasparini Institute for Economic Research) and a professor at Universitá Bocconi in Milan, Italy. He has served on the Council of Economic Advisors of the Italian Prime Minister and on advisory panels of the Italian Treasury. Other experience includes economic consultancies at the World Bank and the IMF. This presentation was based on his upcoming book with Torsten Persson The Economic Effects of Constitutions: What Do the Data Say? *(MIT Press).*