

A COMPARISON OF THE POLICY EFFECTIVENESS OF  
PARLIAMENTARY AND PRESIDENTIAL SYSTEMS IN  
REDUCING BUDGET DEFICITS

A THESIS PRESENTED BY  
HÜSEYİN ÇAĞRI SAĞLAM  
TO  
THE INSTITUTE OF ECONOMICS AND SOCIAL SCIENCES  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF MASTER OF ARTS IN ECONOMICS

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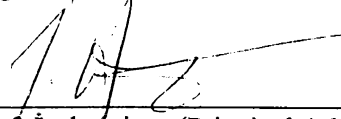
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*Hüseyin Çağrı Sağlam*  
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*karafendesi başsavcısıdır*

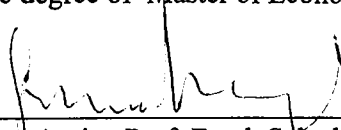
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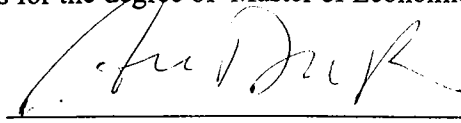
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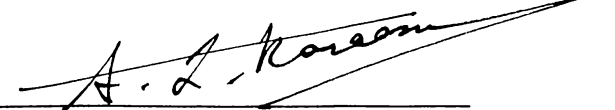
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Assist. Prof. Faruk Selçuk

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Assist. Prof. Nedim Alemdar

Approved by the Institute of Economics and Social Sciences

  
Prof. Ali Karaosmanoğlu  
Director of Institute of Economics and Social Sciences

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## ABSTRACT

### A COMPARISON OF THE POLICY EFFECTIVENESS OF PARLIAMENTARY AND PRESIDENTIAL SYSTEMS IN REDUCING BUDGET DEFICITS

HÜSEYİN ÇAĞRI SAĞLAM

M.A. IN ECONOMICS

Supervisor: Assist. Prof. İzak Atiyas

July 1997

Political institutions, affect the policymaking capabilities of the government. These capabilities influence the governments' ability to make strategic policy choices that will help them in reaching their policy objectives. One of the most important choice of political institutions is the system of government, that is, whether it is parliamentary or presidential. This thesis discusses how the choice of system of government affects the ability of reaching the policy objective of reducing budget deficit. It examines the decisionmaking attributes of the two systems and the impact of these attributes on specific capabilities required to reduce budget deficits, namely, "ability to set and maintain priorities among many conflicting demands", "ability to impose losses on powerful groups", and "ability to allocate resources effectively".

Keywords: Parliamentary System, Presidential System.

## ÖZET

### PARLEMANTER VE BAŐKANLIK SİSTEMLERİNİN BÜTÇE AÇIKLARININ DÜŐÜRÜLMESİNDEKİ YETKİNLİKLERİNİN KARŐILAŐTIRILMASI

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Tez Yöneticisi : Y. Doç. Dr. İzak Atiyas  
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Siyasi kurumlar, hükümetin, stratejik kararlar vererek, ekonomi politikaları belirleme ve uygulama yetisini etkiler. Siyasi kurumlar hakkındaki seçimlerin en önemlilerinden biri, devletin yönetim sisteminin, parlamenter sistem veya başkanlık sistemi olmasıyla ilgilidir. Bu tez, devletin yönetim sisteminde yapılan seçimin, bütçe açığının düşürülmesi hedefi üzerine etkisini tartışmaktadır. Bu hedefe ulaşmak için, hükümetlerin üç yetiye gereksinim duydukları belirlenmiştir: “Çelişen seçenekler arasından öncelikli olanları saptayabilme”, “siyasi gruplara ekonomik yaptırımlar uygulayabilme” ve “kaynakların etkin kullanımını sağlayabilme”. Her iki sistemin siyasi karar yapıları ele alınmakta, ve bu yapıların, bütçe açıklarını düşürmede gerekliliği belirlenen hükümet yetileri üzerindeki etkileri incelenmektedir.

Anahtar Sözcükler : Parlamenter Sistem, Başkanlık Sistemi.

Dedicated to my mother...

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## 1. INTRODUCTION

The last decades of twentieth century has witnessed a widespread wave of democratization around the world. Countries are building the institutions necessary to satisfy criteria of effective participation, enlightened understanding and control of agenda such as elected officials, free and fair elections, inclusive suffrage, freedom of expression, and associational autonomy.<sup>1</sup>

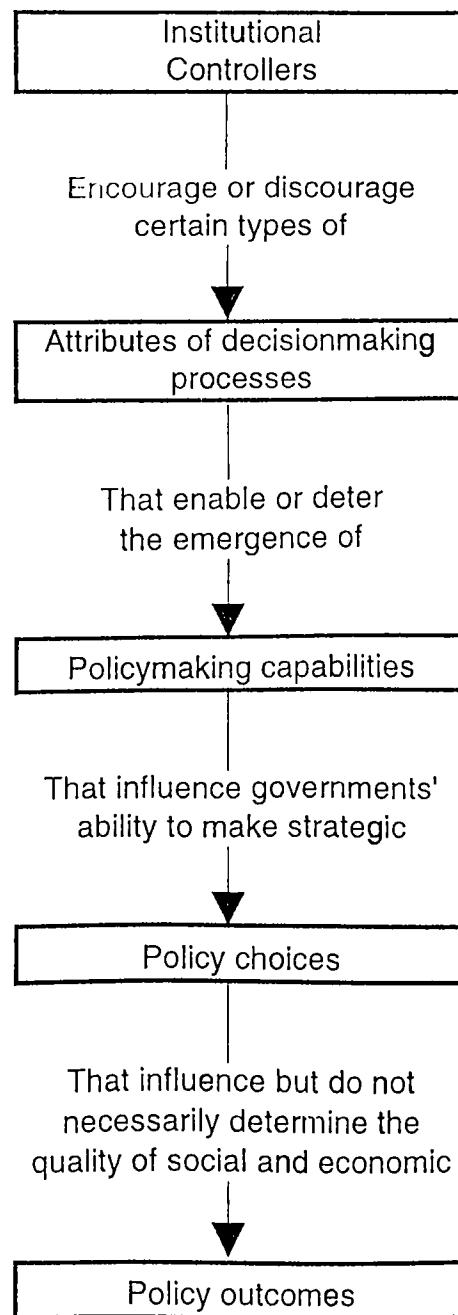
How the newly democratized countries are able to cope with problems such as economic development, political and social integration and a high volume of public demand on scarce resources will largely determine whether the democratization process achieves a lasting stability. How effective they are in responding to these problems will depend on many factors , including their choice of political institutions.

Institutions create incentives and disincentives for political actors, shape actors` identities, establish the context in which policymaking occurs and can help or hinder the construction of democratic regimes. This constructs a causal linkage between political institutions and decision making processes which in turn influences governmental capabilities. Such an analytical task can be seen in figure 1.

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<sup>1</sup>Dahl, R.A.(1989), "Democracy and Polyarchy", in Young, Binns, Burch,Jaenicke, and Moran eds., "Introducing Government", Manchester University Press, pp 19.

Figure 1  
***Determinants of Government Policymaking Capabilities***



Source: Weaver, R.K. and Rockman, B. A. (1993),  
"Do Institutions Matter", The Brookings Institution, pp.9.

Ten specific capabilities that all governments need can be listed as follows<sup>2</sup> :

- To set and maintain priorities among many conflicting demands,
- To target resources where they are most effective,
- To innovate when old policies have failed,
- To coordinate conflicting objectives,
- To be able to impose losses on powerful groups,
- To represent diffuse interests,
- To ensure effective implementation of government policies and stability,
- To make and maintain international commitments,
- To manage political cleavages to ensure that the society does not fall into civil war.

Among all choices of political institutions, the most important one is the system of the government, that is, whether it is presidential, semi-presidential or parliamentary. Presidential and parliamentary systems come with their own baggage. When nations choose a parliamentary or a presidential form, they are choosing a whole system whose properties arise endogenously.<sup>3</sup> We can define presidentialism and parliamentarism along two dimensions, whether the chief executive is elected by the legislature and whether the term office is fixed. Table 1 portrays these two dimensions.

---

<sup>2</sup>Weaver, R.K. and Rockman, B.A.(1993), " Do Institutions Matter?", The Brookings Institution, pp 6.

<sup>3</sup>Moe, T.M. and Caldwell M.(1994), "The Institutional Foundations of Democratic Government: A Comparison of Presidential and Parliamentary Systems", Journal of Institutional and Theoretical Economics, vol 150, No.1, pp 173.

Table 1

*Classifying Systems of Government*

		Fixed term for head of government	
		Yes	No
Head of Government elected by legislature	Yes	Hybrid (Switzerland & Bolivia)	Parliamentary
	No	Presidential	Hybrid (No cases)

Source : Mainwarring,S.(1993), “Presidentialism, Multipartism, and Democracy: The Difficult Combination”, Comparative Political Studies, vol.26, No.2, pp203.

Defining stable democracies strictly on the basis of democratic longevity, more specifically, at least twenty-five years of uninterrupted democracy, Table 2 lists countries (those are noted to be stable democracies as of 1992) according to whether they have presidential or parliamentary systems.

The purpose of this study is to discuss how the choice between presidential and parliamentary system of government affects the government’s ability to conduct policy in a specific area, namely, reducing budget deficits. The choice of the policy area is motivated by its importance, and by the dissatisfaction with budgetary systems in every country. It is widely observed that total government expenditures and budget deficits have been growing rapidly in the last few decades.. Budget preparation and execution procedures have been criticized as ineffective both in restraining expenditure growth and in ensuring that expenditures are allocated efficiently.

Most industrialized countries entered the 80's with their public finances out of order. Oil crises, stagflation, rising debt burdens and rising costs of entitlements had generated huge deficits that destabilized the relationship between the government budget and the national economy. Fiscal stress turned many governments from distributing political benefits into distributors of financial losses. This was a difficult adjustment, not every country was able to make it.

Studies on the differences in the manner in which the countries responded to those fiscal problems have been widespread. Haan and Sturm(1993) worked on the cross country differences in debt accumulation and the size of the public sector of member countries of the European Community during the 80's. They conclude that the growth of government debt is positively related to the frequency of government changes and negatively to sound budgetary procedures.

Roubini and Sachs(1989), suggest that in several OECD countries, the slow rate at which the post 1973 fiscal deficits were reduced resulted from the difficulties of political management in coalition governments. They made clear that there is a clear tendency for larger deficits in countries characterized by a short average tenure of government and by the presence of many political parties in a ruling coalition.

Grilli, Masciandro and Tabellini (1991) examined the postwar experience of 18 OECD countries' striking differences in public debt policies. They suggest that the reasons of these differences are government weakness as measured by their decision making capacity and their average durability.

Von Hagen (1992) addresses the question of why certain countries have experienced large budget deficits for several years and whether large cross country differences can be explained by focusing on the budgetary institutions of European Community. He finds strong support for his structural hypothesis, namely, that budget procedures lead to greater fiscal discipline if they give strong prerogative to the Prime Minister and the Finance Minister, limit universalism (which is defined as the property of a budget that includes "something for everybody"), reciprocity (which

is “an agreement not to oppose another representative’s proposal in exchange for the same favor). He constructs indices that summarize several budgetary institutions:

1. Strength of the position of the Prime Minister or the Finance Minister in intragovernment negotiations
2. The limits to parliamentary amendments
3. Type of parliamentary votes
4. Timing of parliamentary votes
5. Degree of transparency of the budget
6. Amount of flexibility in the implementation process.

Alesina, Haussmann, Hommes and Stein (1996), consider a sample of almost all the Latin American countries between 1980 and 1993 and construct an index of budget procedures on similar dimensions with that of Von Hagen. They find strong evidence that budget procedures and budget institutions do influence budget outcome.

Spolaore (1992) analyzes two broad classes of systems, namely, coalitional systems and majoritarian systems, in fiscal stabilization. In coalition systems, policymakers tend to act too little and too late. Inefficient delays are increasing in the number of parties and in the inter-party political-economic conflict. By contrast, majoritarian governments tend to act too often. They exercise policy action even when inaction is the inefficient choice.

Poterba (1994), and Alt and Lowry (1994) consider the policy response to fiscal shocks in the American states and find that adjustment is slower in states with divided control than in states with unified control.

Notice that, studies are concentrating on the reasons of cross country differences in budget deficits and how the governments are responding to them among OECD countries, European Community Members, Latin American countries and American States. They are also considering the differences between different forms of presidential systems, divided and unified government cases, and different forms of parliamentary systems, coalitions and majoritarian governments. But there is

no study that directly compares the responses of parliamentary and presidential systems to fiscal deficits and their tendency to accumulate debt.

The aim of this study is to compare presidential and parliamentary systems and evaluate the degree to which their decision making attributes provide opportunities in responding to budget deficits. The study proceeds as follows. In the proceeding part, characteristics of parliamentary and presidential systems will be examined and structural differences between the two will be discussed. Part 3 is devoted to the examination of the parliamentary and presidential systems' ability to reduce budget deficits by identifying the required government capabilities. Capabilities needed in reducing budget deficit are analyzed under three headings; setting and maintaining priorities among many conflicting demands, ability to impose losses on powerful groups, and ensuring effective allocation of resources. Finally, the results are interpreted in conclusion part.



Table 2

*Stable Democracies, 1967-1992*

<u>Parliamentary Systems(24)</u>	<u>Presidential Systems(4)</u>	<u>Other Systems(3)</u>
Australia	Colombia	Finland
Austria	Costa Rica	France
Barbados	United States	Switzerland
Belgium	Venezuela	
Botswana		
Canada		
Denmark		
Germany		
Iceland		
India		
Ireland		
Israel		
Italy		
Jamaica		
Japan		
Liechtenstein		
Luxembourg		
Malta		
Netherlands		
New Zealand		
Norway		
Sweden		
Trinidad and Tobago		
United Kingdom		

Source : Mainwaring,S.(1993), "Presidentialism, Multipartyism, and Democracy: The Difficult Combination", Comparative Political Studies, vol.26, No.2, pp205.

## 2. STRUCTURAL DIFFERENCES BETWEEN PARLIAMENTARY AND PRESIDENTIAL SYSTEM

The main difference between presidential and parliamentary systems arises from the relationship between executive and legislative branches. In presidential democracies, the head of the government is essentially popularly elected. Legislative elections and postelection negotiation do not determine executive power. One may not be a member of both the legislative and executive branches of government at the same time in the presidential system. Presidents are elected for a fixed time period, that, under normal circumstances cannot be shortened, and sometimes, due to provisions preventing reelection, not prolonged. The president cannot be forced to resign because of a no-confidence vote by the legislature. The president is not only the holder of executive power, but also the symbolic head of state. Because of these, two features of the presidential system stand out as "dual democratic legitimacy" and the "rigidity"<sup>4</sup>

Dual democratic legitimacy of presidential regimes stems from the fact that both the president who controls the executive and an elected legislature enjoy democratic legitimacy. This system gives the president, who combines the qualities of head of state representing the nation and the powers of the executive, a different perspective and creates very different popular expectations than those redounding to a prime minister with whatever popularity he might enjoy after receiving the same number of votes. The president is a one-person executive, whereas the prime minister and the cabinet form a collective executive body in the parliamentary system. Also the position of the prime minister in the cabinet can vary from preeminence to virtual equality with the other ministers, but there is always a relatively high degree of collegiality in decision making. In contrast, the members of presidential cabinets are mere advisors and subordinates of the president.<sup>5</sup>

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<sup>4</sup>Linz,J.J.(1994),"Presidential or Parliamentary Democracy",in Linz,J.J. and Valenzuela,A.,eds., "The Failure of Presidential Democracy",Johns Hopkins University Press, pp 6.

<sup>5</sup>Lijphart,A.(1994), "Presidentialism and Majoritarian Democracy", in Linz,J.J. and Valenzuela,A.,eds., "The Failure of Presidential Democracy",Johns Hopkins University Press, pp 93.

In a presidential system, legislators representing the well-organized, disciplined parties that constitute real ideological and political choices for the voters, also enjoy a democratic legitimacy. It is possible that the majority of such a legislature might represent a different political choice from that of the voters supporting a president. Voters with policy preferences in between the two parties' ideal policies, take advantage of this legislative-executive interaction in policy formation to bring about moderate policy outcomes by favoring one party in the legislative election and the opposite party in the presidential election.<sup>6</sup> Since both derive their power from the vote of the people, a conflict is always latent on who is better legitimated to speak in the name of people.<sup>7</sup>

The second main institutional characteristic, rigidity of presidentialism, makes the political process broken into discontinuous, rigidly determined periods without the possibility of continuous readjustments as political, social, and economic events might require. The duration of the mandate of a president becomes an essential political factor to which all actors in the political process have to adjust.

On the other hand, in parliamentary systems, the head of government is elected by the legislature and subsequently depends upon the ongoing confidence of the legislature for remaining in office. If the government loses the confidence of the legislative assembly, it must either resign or dissolve the assembly to determine whether it or the assembly represents the electorate. Dissolution power is important for maintaining support for the government in the legislature.

In the presidential system the legislature and the executive are considerably more independent of each other than in the parliamentary systems. The parliamentary system is often said to reject the separation of powers in favor of a "fusion" or "concentration" of legislative and executive power. Although the concept of parliamentary government does imply that the executive and the majority of the legislature cannot long be in serious disagreement, that does not mean that they have

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<sup>6</sup>Alesina, A. and Rosenthal, H. (1995), "Partisan Politics, Divided Government and the Economy", Cambridge University Press, pp 44.

<sup>7</sup>Linz, J.J. (1994), pp 7.

been fused into a single entity exercising both legislative and executive power.<sup>8</sup> As legislative assembly and the government maintain separate existence and are able to check the actions of each other through withdrawal of confidence or dissolution, there is some separation of powers in the parliamentary system also.

In a parliamentary system, all power decisions pass through parliament but this must not be confused with the idea that power rests in it or even more misleadingly in the assembly itself. A parliament's effective power is limited, sometimes dramatically so, by the powers of the ministry which is only indirectly responsible to the electorate, and which may not be effectively checked by the assembly either.

From a different perspective, a parliamentary system can be denoted as a system of mutual dependence as the prime minister must be supported by a majority in the legislature and can fall if it receives a vote of no confidence, but at the same time the executive has the capacity to dissolve the legislature and call for elections. By contrast, a presidential system can be denoted as a system of mutual independence as both the legislative and the chief executive power, the president, have a fixed electoral mandate that is their own source of legitimacy.<sup>9</sup>

The comparison of the presidential and the parliamentary system according to the relationship between legislature and executive can be summarized as in table 3.

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<sup>8</sup>Gwyn,W.B.(1986),"Modern Forms of Democratic Government", in Goldwin,R.A. and Kaufman,A.,eds, "Separation of Powers- Does it still Work?",American Enterprise Institute Constitutional Studies, pp 76.

<sup>9</sup>Stepan,A. and Skach,C.(1994), "Presidentialism and Parliamentarism" in Linz,J.J. and Valenzuela,A., eds., "The Failure of Presidential Democracy",Johns Hopkins University Press, pp 121.

Table 3

*Relationship Between Legislature and Executive*

<b>Attribute</b>	<b>Parliamentary</b>	<b>Presidential</b>
Head of State	Monarch or President	President
Head of Government	Prime Minister	President
Executive	Appointed by PM from assembly	Secretaries of President
Executive members of assembly?	Yes	No
Executive can dissolve assembly?	Yes	No
Fixed term for executive?	No	Yes
Assembly checks executive?	Sometimes	No
Focus of Power	Parliament	None

Source : Calvert,P.(1992), "An Introduction to Comparative Politics", Harvester Press, pp 98.

Between parliamentary and presidential systems, in semi-presidential systems such as Finland, France, a popularly elected president is head of the state but it is not always the head of the government. In Austria, Iceland and Ireland, a president is elected by direct popular vote but has only minor power and therefore is not the head of the government. In these three countries, the system is parliamentary notwithstanding the existence of popular elections for president.<sup>10</sup>

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<sup>10</sup>Mainwaring,S.(1993), pp 202.

A simple contrast between parliamentary and presidential systems suggest substantial homogeneity within each type of system. A closer examination however reveals that policymaking structures and processes in parliamentary systems can vary tremendously across countries and over time, in their regime types which is defined as the modal pattern of government formation and government types such as single-party majority, single-party minority or minimal majority coalition. Three parliamentary regime ideal types with examples of each can be seen in table 4.

Government type differences occur in presidential system, in the form of unified and divided government cases. In the unified government case, the same party controls both the presidency and congress whereas in divided government the presidency and the congress are controlled by different parties. In the United States, since 1955, divided governments have become much more common.

Table 4

*Regime Types among Parliamentary Systems in Selected Countries*

<b>Regime Type and Country</b>	<b>Modal Government Type</b>	<b>Modal Pattern of Decisionmaking</b>	<b>Secondary Government types</b>
<i>Multiparty Coalition</i>			
Netherlands Belgium Denmark Norway Germany Israel	Two or more parties govern in minimum winning coalition, with partners changed after elections	Highly variable elite cohesion, elite stability, interest group access and variable veto points	Minority single party government; oversized coalition; Majority single party government
<i>Party Government</i>			
United Kingdom Canada Australia	Two major parties alternate majority control of government	Generally high elite cohesion, stability; limited interest group access, few veto points	Minority government Multiparty coalition government
<i>Single-party-dominant</i>			
Japan Italy(pre-1970s) Sweden(pre-1976)	Dominant party rules alone or as dominant coalition partner for prolonged periods	Generally high elite cohesion, stability; few veto points; selective interest group access	Minority government by dominant party; Coalition government by opposition parties

Source : Weaver,R.K. and Rockman,B.A.(1993), "Do Institutions Matter", The  
Bookings Institution, pp 19.

### 3. COMPARISON OF PARLIAMENTARY AND PRESIDENTIAL SYSTEMS IN THEIR ABILITY TO REDUCE BUDGET DEFICITS

The economic objectives of state, such as promotion of growth and development, and stability are subject to interpretation and become meaningful only when given specific content and reflected in policies.<sup>11</sup> Objectives and policies are determined by policymakers whose identity varies among countries depending on the political system and the influence of social, economic and historical conditions. In this sense, the budget being a series of goals with money figures attached, is an important area to compare the effectiveness of parliamentary and presidential systems.

#### 3.1. General View on the Nature of Budget and Budgeting

A budget contains words and figures that propose expenditures for certain objects and purposes. The words describe types of expenditures(salaries, equipment, travel) or purposes(preventing war, improving health services, providing low income housing) and the figures are attached to each item. Presumably, those who make a budget, intend that there will be a direct connection between what is written in it and future events. Budgets become links between financial resources and human behavior in order to accomplish policy objectives.

Without any restrictions on procedures, without any “structure” and rules, Arrow’s Impossibility theorem(1951), implies that a legislature would never produce a budget but only legislative “chaos”. Influential work by Shepsle shows that the restrictions (“structure”) imposed by procedural rules generally solve Arrow’s problem and lead to predictable legislative outcomes.

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<sup>11</sup>Easton,D.(1959), “The Political System: An Inquiry into the State of Political Science”, Knopf, pp 129.



Political economy views the budget process as a mechanism for resolving conflicts among competing interests. Government activities are tend to be targeted at specific groups while being paid for by the general taxpayer. The incongruence between those who benefit and those who pay has important implications. Policymakers representing spending agencies or groups benefiting from particular public activities take into account the full benefit from expanding the programs they are concerned with , but recognize only the part of that part of the costs that falls on their constituencies. As a result, policymakers systematically overestimate the net marginal benefit of increasing public spending, and, hence, use their political influence to increase spending beyond the level that would equate social marginal costs and benefits.

Basing their studies upon a view of the budget as a result of conflicting interests of representatives with geographically based constituencies, Weingast, Shepsle and Johnsen(1991) address two problems: determination of size of the budget and the allocation of projects amongst different districts. They argue that representatives with geographically based constituencies ask for spending programs which benefit their district and are financed nationwide. Representatives systematically do not internalize the effects of spending in his district on the tax burden of the country. The aggregate effect of rational representatives facing these incentives is an excessive demand of public goods with geographically targeted benefits and diffuse financing costs.

As all policymakers have reasons to behave in the same way, the result is excessive spending. Even if current spending is divided efficiently between current and future taxes, this leads to excessive deficits and debts, too. This problem is called the “common pool” problem of government budgeting, because the problem is not unlike that of a common resource exploited by uncoordinated private parties.<sup>12</sup>

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<sup>12</sup>Inman,P.I. and Fitts,M.(1990), “Political Institutions and Fiscal Policy: Evidence from the U.S. Historical Record, Journal of Law, Economics, and Organization, vol.6, pp 81.

The players of this coordination game are our elected representatives and the common pool resource is our current and future national taxable capacity. Without suitable incentives to consider the implications of their actions on all other elected representatives, each player adopts an own best political strategy, which together may harm legislature's collective benefit. That strategy may be to overspend on domestic public programs; to overextend tax exemptions, credits, and deductions; and to pay for some or all with excessive current period deficits. The net effect is an overutilization of a public resource: national wealth. This process is known as "universalism", which is also known as "pork-barrel politics".

Weingast, Shepsle and Johnsen do not address directly the question of how all of these demands for pork barrel projects lead to an aggregate budget; that is, they do not explicitly characterize the voting equilibrium. Alesina and Perotti(1996), characterizes this critical feature of a voting equilibrium which leads to oversupply of pork barrel projects as "reciprocity". Namely, a representative of the  $i$ th district votes in favor of a project for district  $j$ , expecting the same favor in return from the representative of the district  $j$  in the next vote. This kind of cooperative behavior amongst representatives may be enforced by repeated votes.

Chari and Cole(1993), considering the insights of Weingast, Shepsle and Johnsen(1981), suggest that public debt can be used strategically by today's policymaker to influence the choice of tomorrow's policymakers if the two policymakers have different spending priorities. Chari and Cole consider a legislature with the kind of spending bias emphasized by Weingast, Shepsle and Johnsen and show how this legislature will choose to issue debt to spend as much as possible in the first period. The reason for high spending, and high debt policy is a combination of the "district bias" argument and the strategic debt argument. Between these, there may be a fundamental

“prisoner’s dilemma” with respect to budget cuts. All legislators may prefer comprehensive budget cuts to a continuation of large deficits but each of them may have the incentive to protect its particular part of the budget benefiting its constituencies.

In summary, since political institutions fundamentally alter the perceptions and incidence of benefits and costs, they systematically bias project choices away from the efficient outcomes. The important sources of spending bias can be summarized in three items. The first is a consequence of the political definition of benefits and costs and its divergence from the economic definition. The second source stems from the districting mechanism which divides the economy into disjoint political units. The method of project financing through generalized taxation constitutes the third source of bias.<sup>13</sup>

Citizens cannot solve these types of problems requiring collective solutions by themselves. It is the government’s duty to handle these problems. In the representative democratic systems, government policymaking process includes two main principal-agent relationships. In the first one, which is known as “political responsibility”, citizens give authority to their representatives, namely legislators, to produce public policies under specified rules. Politicians compete each other in order to obtain this authority. On the other hand, it is duty of the bureaucracy to implement these specified public policies. Thus the second principal-agent relationship known as “administrative responsibility” includes legislators and the bureaucrats. Main problem arises from the fact that the objectives of the principals and the agents do not coincide each other causing conflicts of interest between them. To what extent do the agencies act according to the choices of their principals depend on the existing institutions and their mechanisms. In these mechanisms, the incomplete information of principals in auditing their agencies, and the sanctions on the agents in case of their divergence from the wills of the principals become important.

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<sup>13</sup>Weingast, B.R., Shepsle, K.A., and Johnsen, C. (1981), “The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics”, *Journal of Political Economy*, vol.89, no.5, pp 346.

In effective governments, political and administrative responsibility mechanisms work in such a way that policies produced would fit the preferences of the citizens, resource allocation would reach cost efficiency and the collective dilemmas would be passed over effectively. In this context, the budget, constructed on such a principal-agent relationship, is one of the important tools in reaching government effectiveness. Possible objectives of the budget can be summarized as follows<sup>14</sup> :

1. Macroeconomic Stability: The budget process should overcome the collective dilemmas in government spending, must determine the priorities among these and maintain a reasonable balance between total spending and total resources.
2. Effective Resource Allocation: The budget process should encourage governments to spend more on the public goods and services that are more valuable and important for the citizens. Resources must be allocated to the areas where they would yield higher social welfare. The budget process should enable governments to implement projects at minimum cost.
3. The budget process should give enough information to the principals to audit agents in both political and administrative responsibility.

In order to be able to reach the first objective of the budget, namely macroeconomic stability, the government needs the ability to set and maintain priorities among many conflicting demands. Between this, the government needs the ability to allocate resources effectively in reaching the second objective of the budget.

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<sup>14</sup>Atiyas,I. and Sayin,S.(1996), “Siyasi sorumluluk, Yönetmel Sorumluluk ve Bütçe Sistemi”, mimeo.

In the budget process, the government, faces the conflict between a larger deficit or lower taxes or between cutting spending or increasing taxes. Because of this, the ability of government to set and maintain priorities among many conflicting demands become important in predicting the whole amount of spending which will constitute its resources and will be covered by the taxes levied. Taxes are compulsory contributions and they are intended to force household or enterprise to give purchasing power to the government. Taxes reduce the disposable income and wealth of those who bear them. It has got strong political costs to the governments that are imposing taxes, in the next election. Ability of government to impose losses on powerful groups become also important. Now the questions of what makes the choice of projects, given a certain total budget, more or less efficient and how to make the final allocation of net benefits among districts, arise. In the budgeting process, the emphasis turns out to be placed on achieving the best returns for a given sum of resources or on obtaining the desired objectives at lowest cost. Thus the ability of government to allocate resources effectively become important in turning budget an instrument for ensuring efficiency. After all, we can think a budget also in terms of a contract. The legislative and executive branches promise to supply funds under specified conditions and the agencies agree to spend them in ways that have been agreed upon.

Interest in the budget process derives from the widespread belief that the process itself can shape the decisions made according to its rules.<sup>15</sup>In particular , by changing the institutional rules that form the budget process, a government's fiscal performance can be changed in a predictable way. We know that, among choices of political institutions, most important one is on the system of the government whether it is parliamentary or presidential. Thus, it is clear that, the system of the government may have a significant effect on its fiscal performance.

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<sup>15</sup>Von Hagen,J., and Harden,I.(1996), " Budget Processes and Commitment to Fiscal Discipline", IMF Working Paper, 96/78.

In order to be able to contrast the government ability to create opportunities in solving problems, such as spending biases, arising in budgeting and thus in reducing budget deficits in the two systems, their decision making processes and their implications will be studied by identifying and incorporating specific variables that link them with cross-national variations in the policy making role of legislatures. These will include variables having to do with the nature of political institutions and actors external to the legislature, their role in the policy making process and their connection with the legislature such as executive elites, political parties, constituencies, and interest groups.

To the extent that the members of the legislature are constrained from acting autonomously by political actors situated in these external institutions- the legislature's policy making role will be restricted. Also, the legislator's claim to a significant policy making role may be bolstered by its relationship with broader public outside government. That is, the strength of the legislatures connection with the constituencies and groups that its members represent may be directly related to its capacity to achieve a strong policy making role<sup>16</sup>.

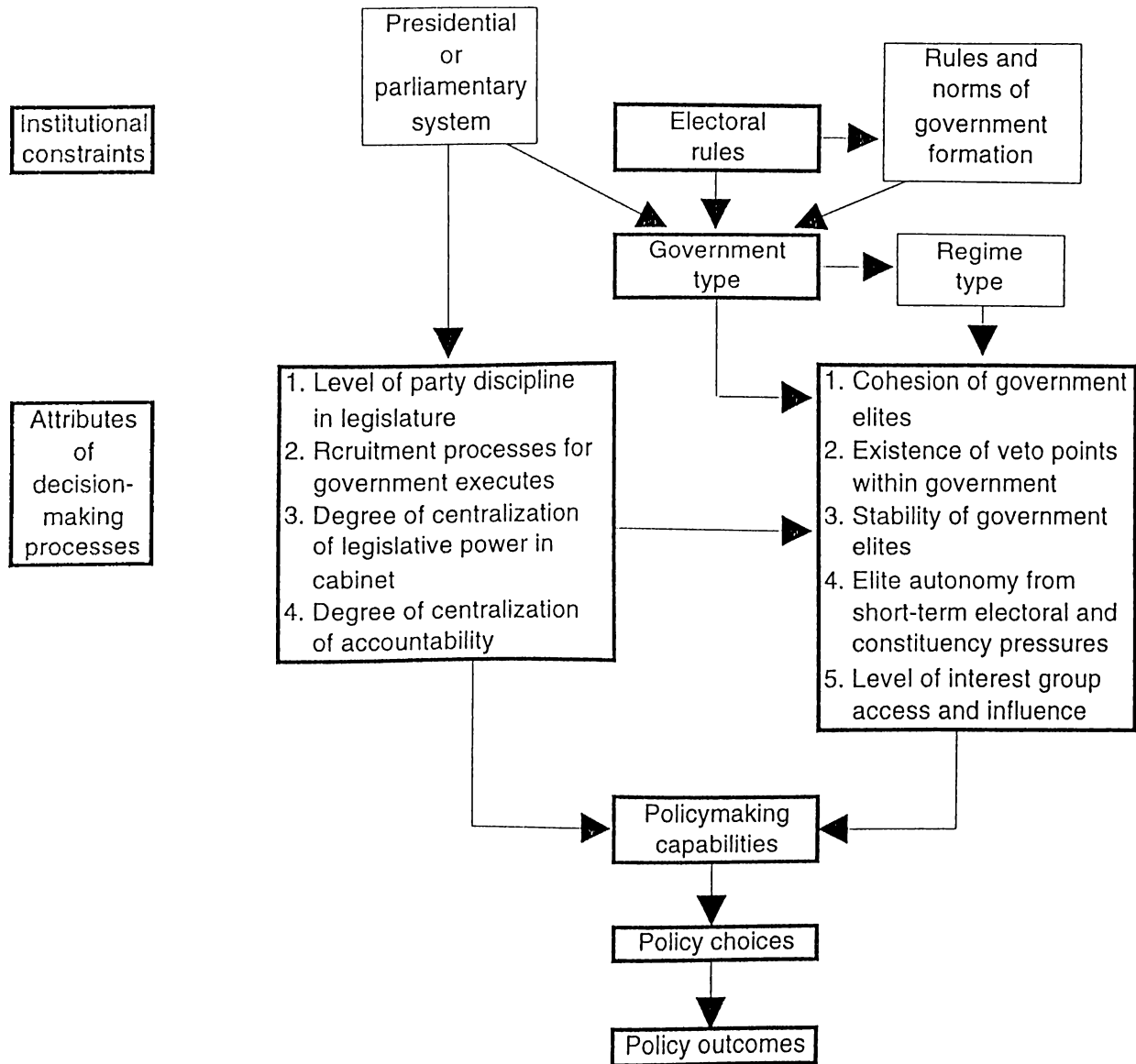
There are a number of decision making processes potentially relevant to policymaking capabilities that differ fairly consistently between parliamentary and presidential system, for example, 'party discipline", "centralization of legislative power in the cabinet", "degree of centralization of accountability", "recruitment processes for government executives". Also the existence of multiple regime and government types in the parliamentary system and the possibility of both unified and divided government in the presidential system add some more variation on policymaking capabilities. Table 5 incorporates these relations briefly.

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<sup>16</sup>Olson,D.M. and Mezcy,M.L.(1990),"Parliaments and Public Policy" in Olsen,D. and Mezcy,M., eds., "Legislatures in the Policy Process",Cambridge University Press, pp 6.

Table 5

**Determinants of Government Policymaking Capabilities**



Source: Weaver, R.K. and Rockman, B.A. (1993), "Do Institutions Matter", The Brookings Institution, pp.25.

Differences in political institutions, especially regimes and electoral systems have a major effect on the governmental capabilities and thus performance in reducing budget deficits. I will compare parliamentary and presidential systems in their ability to face the problems in budgeting and thus in reducing budget deficits by means of the required capabilities that I have mentioned:

- to set and maintain priorities among the many conflicting demands,
- to be able to impose losses on powerful groups,
- ability to allocate resources effectively.

### **3.2. Setting and Maintaining Priorities Among Many Conflicting Demands**

It is not hard for governments to maintain existing priorities in the absence of political and economic environment pressures from constituencies. The important concern is on rationing scarce resources and trying to equilibrate resources and commitments in order to continue the established policies. In these circumstances, when setting priorities, government may have to face the conflict between a larger deficit or lower taxes or between cutting spending or increasing taxes. It may have to decide if inflation or unemployment should be its most important fiscal concern. Between these, policy conflicts arising from the competition among ministers, parliamenters, parties, administrators, and interest groups in recording their preferences appear in the budget.<sup>17</sup>

Important determinants of to what extent government can resolve these conflicts are “centralization of legislative power in the cabinet”, “cohesion of government elites”, and “absence of effective veto points”. Centralization of legislative power gives opportunity to the government in dictating its priorities, maintained in the budget process for overcoming the collective dilemmas. Cohesion of government elites make them to

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<sup>17</sup>Shick,A. (1993), “Governments versus Budget Deficits ”, in Weaver,R.K. and Rockman,B.A. eds., “Do Institutions Matter”, The Brookings Institution, pp 188.



support each other in the achievement of common goals, determined according to the maintained priorities. With cohesion of government elites, government would also be able to act in a more decisive and consistent manner. On the other hand, existence of effective veto points would clearly reduce the government ability to set and maintain priorities as it would introduce stalemate in the budget process. Institutions with effective veto powers may not share the same objectives with the government and make opposition in the specified priorities of government. It is also clear that the polarization of the political system and stability would affect the priority setting capability of governments. In the more polarized societies, it would be much harder to solve collective dilemmas in the budget process. Strong polarization political preferences and pronounced distributional conflicts tend to result in excessive deficits and fast accumulation of debts.

Now, I will compare presidential and parliamentary systems in terms of these determinants starting from the centralization of legislative power in the cabinet.

### **3.2.1. Centralization of Legislative Power in the Cabinet :**

In the previous section, I considered a political-economy model of the budget process focusing on the common pool problem of the public budget. Externality arising from the fact that public spending tends to be targeted at individual groups in society while the tax burden is widely dispersed creates a bias towards excessive expenditures and debt. This bias can be reduced by introducing centralizing elements in the budget process, namely, institutional provisions that promote a more comprehensive view of the marginal costs and benefits of public activities and diminish the power of special interests.

Mc Cubins and Cox(1993), introduces central authority as a solution to collective dilemmas. This central authority involves three common features :

1. The authority bears the direct cost of monitoring the population faced with collective dilemma;
2. The authority possesses by virtue of its institutional position, selective incentives with which to punish noncooperative and reward cooperative behavior;
3. The authority is motivated to bear the costs of monitoring and to expend scarce resources on selective incentives in punishing and rewarding those whom it monitors, either by receiving a substantial share of the collective output or by some other compensation scheme designed to align the personal interests of the authority with the level of collective output.

Major implications of the collective dilemmas associated with budgeting in a decentralized legislature can be specified in four items<sup>18</sup>: First, public spending through government projects and tax favors should be inefficiently too large. Second, for any level of aggregate spending, tax rates should be too low and deficits possibly too high. Third, any economic or political shocks which lead to increased public spending should be deficit financed. The end result may be an inefficiently large public sector, perhaps overly financed with public debt.

In the light of these ideas, the essential purpose of establishing a central authority is to create an institutional position whose occupant has a personal incentive to ensure that the collective dilemma is overcome. Thus, centralization of legislative power in the cabinet would be effective in overcoming the collective dilemmas by influencing the ability to set and maintain priorities among many conflicting demands in the budget process. One way to achieve centralization involves collective negotiation among the relevant policymakers, namely in the cabinet, to determine binding budget targets early

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<sup>18</sup>Inman,P.R. and Fitts,M.A.(1990), "Political Institutions and Fiscal Policy:Evidence from the U.S. Historical Record", *Journal of Law, Economics, and Organization*, vol.6, pp 92.

in the budget process. The other way involves vesting the executive branch of government with strategic superiority over the legislative branch.<sup>19</sup>

The fusion of executive and legislative powers in parliamentary systems, offer advantages in maintaining and setting priorities. A cabinet offers a centralized session for discussing and resolving disputes over priorities and for imposing resource constraints. The presidential system, in comparison, is characterized both by decentralization within congress and by the absence of definitive mechanisms for resolving conflicts between executive and legislative priorities.

Walter Bagehot in his famous study, “The English Constitution” states the reason of the effectiveness and responsibility of British parliamentary government and the deficiencies of American presidential government as “fusion of powers”. Bagehot’s use of the word “fusion” is described as “the committee which unites the law making power to the law executing power”. The cause of this effectiveness was the close union, the nearly complete fusion of the executive and legislative powers with the connecting link of “cabinet”.<sup>20</sup>

The centralization of legislative power in the cabinet, may be effected by the strength of legislature for independent policymaking action. The strength of the legislature’s policymaking role is most frequently connected to its capacity to resist or modify policy initiatives emanating from the executive branch. Legislatures with strong policymaking roles can oppose the executive effectively. This would weaken the centralization of legislative power, which is important in effective priority setting.

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<sup>19</sup>Von Hagen, J. and Harden, I. (1996), pp 9.

<sup>20</sup>Gwyn, W. B. (1986), pp 79.

The centralization of legislative power will be higher in parliamentary systems than in presidential systems as the policy activity of legislatures will be greater in presidential than in parliamentary systems<sup>21</sup>. In parliamentary systems, prime ministers and cabinets, because of their selection by the parliament and their control of a partisan majority are quite likely to see their policy initiatives pass the parliament. Separately elected presidents in contrast, usually have a weaker relationship with legislative majorities and therefore encounter more difficulty in gaining parliamentary approval for what they propose. One reason usually cited for this difference between parliamentary and presidential system is the power of the government to dissolve the parliament in parliamentary systems.

The dissolution power of the government in parliamentary systems would strengthen the centralization of legislative power in the cabinet as it is an important tool in maintaining support for the government in the legislature. If the government loses the confidence of the legislative assembly, it must either resign or dissolve (bring a new election) the assembly to determine whether it or the assembly represents the electorate. This weakens the capacity of legislatures opposition to the policy initiatives as it is not guarantee for them to be elected in the next election. They would also fear from being dropped from the list in the next election. This type of government is said to reject separation of powers in favor of a fusion or concentration of legislative and executive power.

On the other hand, the president does not have the power to dissolve the legislature. This characteristics of presidentialism, prevalent in many countries reduces the centralization of legislative power in the cabinet.<sup>22</sup>

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<sup>21</sup>Olson,D.M. and Mczey,L.M.(1990), pp 8.

<sup>22</sup>Lijphart,A.(1994), pp 99.

Now, I will discuss some factors that would affect the centralization of legislative power in the cabinet such as centralization of executive branch, the executive level at which policy issues are resolved, and the structure of the committees.

The more centralized nature of the executive bureaucracy of parliamentary systems also introduces some advantages in centralization of legislative power in the cabinet relative to presidential systems. The policy activity of legislatures will be greater<sup>23</sup> and thus the centralization of legislative power in the cabinet will be lower if the executive branch is more decentralized rather than centralized. The emphasis on hierarchy and on collective decisions in systems with centralized bureaucracies greatly limits the latitude of individual legislators for independent action, whereas in more decentralized systems, the latitude for legislative action is greater.

Similarly, the centralization of legislative power in the cabinet will be higher in parliamentary systems as the policy issues are resolved at the highest levels of the executive, namely the cabinet. To the extent that issues are resolved at the higher levels of executive, the opportunity for legislative action will be lower. This is because when high level executives become committed to decisions, the political price of opposing increases. Legislators would not face the risk of being dropped from the list in the next election and also the career advancement of a legislator depends on its well-going with the prime minister. On the other hand, in presidential systems, namely in United States, the president's position on a legislative proposal may be unclear or simply unstated and in such instances, a much greater range of legislative activity is possible.<sup>24</sup>

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<sup>23</sup>Olson, D.M. and Mezey, L.M. (1990), pp 9.

<sup>24</sup>Olson, D.M., Davidson, R.H., and Kephart, W.T. (1990), "Industrial Policy Agenda and Options in the Congress and the Executive in the United States" in Olson, D.M. and Mezey, M.L. eds., "Legislatures in the Policy Process", Cambridge University Press, pp 92.

Another important factor that differs in parliamentary and presidential systems and influences the centralization of legislative power in the cabinet is the structure of the committees. Committees are vital elements of modern parliaments as they give rise to policy expertise in the legislature and implementation of the policy activities of the bureaucracy through a division of labor. In some legislatures, committees are permanent and in others they are temporary. Permanent committees have relatively slow membership turnover, fixed and defined policy area jurisdiction thus provide members an opportunity to develop expertise in specific policy areas. They tend to become autonomous to some degree and are associated with a more active policymaking capacity for legislature. On the other hand, temporary committees are usually reformed with each new legislative session and have higher membership turnover and less well-defined jurisdiction. Temporary committees are less likely to support an active legislative policymaking role.

Permanent committees that function in the United States congress suggest a strong committee system and a strong policymaking role for the legislature weakening the centralization of legislative power in the cabinet. The British House of Commons, in contrast, includes ad hoc committees with non-continuing jurisdictions and greater membership turnover rates, and are less likely to have a significant policymaking role.<sup>25</sup>

In the light of these ideas, parliamentary systems introducing tremendous difference in power between cabinet members and backbenchers in amending government legislation or proposing their own, leads to a higher degree of centralization in the cabinet relative to presidential systems. In presidential systems, congressional committees and individual legislators have more opportunities to influence legislation. In parliamentary systems, legislative committees have also limited power in influencing legislation.

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<sup>25</sup>Leloup, L.T. and Woolcy, J.T. (1990), "Legislative Oversight of Monetary Policy" in Olson, D.M. and Mezey, M.L. eds., "Legislatures in the Policy Process", Cambridge University Press, pp 27.

The degree to which power is centralized in the cabinet would be higher in a parliamentary system with a prime minister leading to single-party majority government and is surrounded with weak and compliant ministers. However, this possibility has raised fears in some parliamentary systems that cabinet government is being replaced by presidential government unchecked by an independent legislation.<sup>26</sup>

### **3.2.2. Cohesiveness of Government Elites**

This section will discuss the second property that governments need in setting and maintaining priorities: “cohesion of government elites”. Government elites are said to be cohesive if they share and act according to a common set of policy and political interests.

While parliamentary systems generally centralize legislative power, they do not guarantee that the elites at the center of the political system will be cohesive. Indeed the need to build a majority coalition, either within one party or among several parties, can lead to strange bedfellows in parliamentary systems just as it can in the presidential system.

Governments made up of a single party holding a minority or a bare majority of legislative seats are most likely to be cohesive because they are usually drawn from a relatively narrow spectrum of issue opinion. Of course, single-party minority governments sacrifice easily influence of legislative veto for gains in cohesiveness. Maintaining cohesion is likely to be especially difficult in multiparty coalition governments in parliamentary systems and in cases of divided government in presidential systems.

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<sup>26</sup>Weaver, R.K. and Rockman, B.A. (1993), pp 15.

Individual coalition partners in multiparty coalition governments have distinctive interests and distinctive constituencies. There is no single uniform objective function for the various political parties in the government that reduces the cohesion of government elites. There is likely to be a fundamental “prisoner’s dilemma” with respect to budget cuts that I have mentioned briefly in the previous section. All partners in the coalition may prefer comprehensive budget cuts to a continuation of large deficits but each of them may have the incentive to protect its particular part of the budget against hard measures. In the absence of strong coordination between members of coalition to produce cooperative outcome, the non-cooperative solution of no budget cutting is quite likely to arise.<sup>27</sup>

Also such coalitions join together in government parties that will be competing directly against one another in the next election. Because of this, cohesion of government elites in multiparty coalition is likely to be especially low in the period leading up to an election. On the other hand, while coalitions provide incentives for elite cohesion, the governing parties do not want to be perceived as always quarreling against each other and cause inefficiencies in government policies, they also try to provide power.

Divided governments function differently and select different policies than governments with a single party in power in presidential systems. Roubini and Sachs(1989), find that nations with a divided government have higher budget deficits. Alt and Lowry(1994), find that states with governors from a party different from that of legislature are more likely than single party states to run budget deficits. The estimates of Poterba(1994), also suggest that single party states raise taxes and cut spending by greater amounts in response to deficit shocks.

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<sup>27</sup>Roubini,N. and Sachs,J.D.(1989), “Political and Economic Determinants of Budget Deficits in the Industrial Democracies”, *European Economic Review*, No.33, pp 925.



The reasons for these are lowered cohesion of government elites, where legislature and governing parties may not share the same policy objectives and lower costs of reaching political consensus in single-party states. It is also clear that divided government reflects the contradictions in public opinion over budgetary objectives.

Roubini and Sachs(1989), construct an index of political cohesion based on the type and duration of government. The most cohesive governments are unified governments, that is, parliamentary systems in which a single-party constitutes the government and presidential regimes in which the same party controls both the legislative and the executive branches. Coalition governments consisting of only two-like minded parties or governments in which presidential and legislative power are held by different parties are less cohesive, as expected. Even less cohesive are those governments which consist of large coalitions with three or more parties.

In setting and maintaining priorities among many conflicting demands, the third property that government needs, “absence of effective veto points” is at least as important as the existence of centralized decision-making forum and the cohesion of decision-making elites.

### **3.2.3. Absence of Effective Veto Points**

The third attribute that affects a government’s ability to set and maintain priorities among conflicting demands is the absence of effective veto points. This attribute can be measured on several dimensions: the number of veto points, the extent to which approval at each point requires more than a simple majority, and the extent to which a veto is complete, permanent and nonappealable rather than partial, temporary and subject to appeal.

In the presidential system, governments have numerous veto points, many of which operate within the decentralized and bicameral legislators. These introduce important obstacles to the government ability to set and maintain priorities among many conflicting demands. On the other hand, the president's veto power over legislation, which can be overridden only by extraordinary legislative majorities strengthens presidential power a great deal. This veto constitutes an opportunity for presidential systems in priority setting as it involves vesting the executive branch with strategic superiority over legislative branch. Unless the legislature contains large antipresidential majorities, the veto makes the president equivalent of a third chamber of the legislature. Not all presidents have veto powers that can only be negated by extraordinary majorities. The Venezuelan president's veto, for instance, can in the final analysis be overridden by a simple majority unless the Supreme Court agrees with the president that the bill is unconstitutional.

In Ferejohn and Shipan(1990), the introduction of presidential veto power into their one-dimensional policy spaced, complete information model affects outcomes in a subtle way. Veto authority matters when there is a large difference between congressional preference and that of the median members of the committees. In case of a presidential veto power, they are expecting that agencies would be more likely to reflect disparate constituencies than a system without a presidential veto power.

Parliamentary systems, ironically tend to diminish the power of legislatures and concentrate it in the cabinet. This does not mean however that veto points in the parliamentary systems are narrowed to the single decision point of the cabinet. Some veto points can arise from specific features of the system, such as judicial review of federalism that are exogenous to the executive-legislative relationship.<sup>28</sup> Many parliamentary systems use cabinet committees and inner or political cabinets as an

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<sup>28</sup>Lijphart,A.(1994), pp 99.

additional veto points. Others, Canada for example, give the finance minister or a collective body(policy planning, priorities or treasury board) an effective, if sometimes informal, veto over ministry proposals.<sup>29</sup>

Nonmajoritarian decision rules can also increase the effectiveness of vetoes in parliamentary system. Threats of ministerial resignations can act as an additional nonmajoritarian constraint on majoritarian decisionmaking.

#### **3.2.4. Polarization of the Political System and Stability**

How strong is the disagreement between the alternative policies, that is, polarization of the political system is also important in setting and maintaining priorities among conflicting demands. More polarized political systems will lack cohesiveness and behave more myopically, that they discount the future more.<sup>30</sup>This approach yields the sharp empirical prediction that public debts should be larger in more unstable and polarized societies.

Disagreement between political actor and on the role of decision-makers(such as cabinet ministers or levels of government) make more difficult to change the status-qua or enact controversial policies. Disagreement result in postponement of unpopular policies. Collective decisions are short-sighted and political conflict is associated with the accumulation of public debt. And the more is the public debt, the more difficult is the resolution of the political conflict.

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<sup>29</sup>Weaver,R.K. and Rockman,B.A.(1993), pp 26.

<sup>30</sup>Grilli,V., Masciandro,D., and Tabellini,G.(1991), "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries", Cambridge University Press, pp 186.

Alesina and Tabellini(1990) show that the greater is the probability of not being reelected and the greater is the degree of political and ideological polarization of the two parties, the larger will be the budget deficit in a model where the optimal policy is to run a budget balance in every period. Cukierman et al.(1989), implies also that political instability and ideological polarization leads to high inflation rates and seigniorage taxation.

Polarization of parties can increase the possibility of strategic political game between governments in office at different points in time which lead to an accumulation of government debt which is used as a commitment mechanism. The simplest illustration of this idea can be followed from Alesina and Tabellini(1990) by two party system in which one likes “defense” and the other likes “social welfare”. They represent the interests of different constituencies. When the defense like party is in power, it would spend on defense and issue debt so that if the opponent is in power tomorrow, it will have to service the debt and will not be able spend much on welfare.

In the more polarized political systems, it can be proposed that parliamentary systems when compared to presidential systems would be more successful in reducing budget deficits as parliamentary systems are associated with more concentration of power and cohesiveness of government elites and give less opportunity of access in their policies which would weaken the effects of polarization heavily. Also knowing that the proportional systems create coalitions and coalitions in the parliamentary systems weaken the centralization of legislative power and the cohesiveness of government elites, it can be proposed that majoritarian electoral systems creating single-party governments would be appropriate in order to be able to reduce budget deficits.

Between polarization, there is also a linkage between government's political stability and budget deficits. Roubini worked on 15 OECD countries, and concluded that political instability and low average duration of the government lead to higher real budget deficits. Poor evaluation of multiparty coalition governments in reducing budget deficits can also be attributed to its short expected tenure.

When political power alternates randomly between competing political parties, each government will be tempted to leave a legacy of high debt for its successor. Current government cares little about the next government's spending because of polarization of political parties. Presumably, the more rapid the turnover of government, the more important would be this deficit bias effect. That is, the short tenure of governments may increase the effect of polarization on budget deficits.

Grilli, Masciandro and Tabellini (1991), Roubini (1991), Haan and Sturm (1993) all make clear that frequency of government changes leads to greater budget deficits. Grilli, Masciandro and Tabellini, in their study also make distinction on frequency of significant government changes and conclude that it is positively correlated with budget deficits.

Roubini and Sachs (1989a), explain government debt growth in their sample of 15 OECD countries that large coalition governments have higher deficits other things being equal than do one-party, majoritarian governments. They argue that, in coalition governments, various parties in power make logrolling agreements so as to ensure higher outlays benefiting their constituencies. In this respect, knowing that proportional electoral systems create coalitions and majoritarian electoral systems create single-party governments; government stability will be lower in representational systems and create higher budget deficits. Also note that, multi-party coalition may be subject to pressure to distribute resources among coalition partners, minority governments may have to build

ad hoc coalitions and party government regimes are thought to be especially prone to policy reversals. Each of these conditions is likely to work against maximizing economic efficiency in targeting resources.

Parliamentary systems have mechanisms that may lead to relatively frequent changes in cabinets and governments but this flexibility in changing governments may help preserve regime stability. Conversely, fixed electoral time table of presidential regimes apparently ensures stability in the head of government but introduces a rigidity inimical to regime stability.<sup>31</sup>

Freedom of presidents to appoint a cabinet without considering the demands of coalition parties or even powerful personalities or factional leaders in their own party assures greater cabinet stability. Also, it must be noted that in many parliamentary regimes the prime minister is also free to appoint his cabinet, that there is no investiture vote of the cabinet or approval of individual ministers, and that often the prime minister is voted into office first and then proceeds to form his cabinet. However this is the difference from a presidential system, the parliament can deny the prime minister investiture or confidence if it disapproves of his cabinet.<sup>32</sup>

Government instability has been one of the strong arguments against parliamentarism and in favor of presidentialism. In this argument, it has been forgotten that there is considerable cabinet instability in presidential systems and that in multi-party systems presidential cabinets are very often also coalition governments, although they have the disadvantage that ministers are selected as individuals who do not necessarily commit their parties to support their policies.<sup>33</sup>

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<sup>31</sup>Mainwaring, S. (1993), pp 208.

<sup>32</sup>Linz, J.J. (1994), pp 32.

<sup>33</sup>Linz, J.J. (1994), pp 65.

Parliamentary systems are also generally better at providing stable support for governments than multi-party presidential systems. Most parliamentary democracies have majority in the legislature most of the time so the governments, though not indefinite, has a secure base of legislative support.<sup>34</sup> In contrast, the notion of majority government is problematic in presidential democracies without a majority party. In parliamentary systems, majority governments are those in which the party or the parties with cabinet portfolios have a majority in the parliament. In some presidential systems, it is not uncommon for a government to have a cabinet member from a particular party, only to face the opposition of many members of that party in congress. Cabinet representation does not ensure that the party's congressional representatives will support the government.

In summary, centralization of legislative power, cohesiveness of government elites and absence of effective veto power are difficult to achieve, given the characteristics, decision-making organization and procedures in presidential systems. The entire congressional budgetary process is the most decentralized, and fragmentary on most issues in the presidential regimes. Between these fundamental features, party leadership and control are comparatively weak, opportunities for interest group intervention and influence are abundant and distributive policies are pronounced.

With these in mind, Denis Ippolito (1974), states that the result has been to severely limit the "capability of the legislative branch to develop integrated and coherent policy". Thus presidential systems provide few opportunities and important risks for setting and maintaining priorities among many conflicting demands which is an important government capability in reducing budget deficits.

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<sup>34</sup>Mainwarring, S. (1993), pp 216.

Weaver and Rockman attribute two important risks to the United States' separation of powers system. The first one is "bidding up" in program expenditures or tax cuts as legislature is considered with the president and congressional leaders attempting to win credits with voters for taking actions that are more popular than those proposed by their opponents. The second risk is "stalemate" that if the president and congress are unable to arrive at a workable long-term compromise, existing policies and priorities are likely to remain unchanged. Stalemate has harmful effects on priority setting capacity of governments when the budget is in deficit and the president and the congress are wrangling over the allocation of losses.

Divided party control of the executive and legislative branches increases the risks of bidding up and stalemate which inhibit effective priority setting. Divided government reflects the contradictions in public opinion over budgetary objectives. An interparty stalemate characterized budgeting during most of the 80's in United States; a republican president wanted no tax increase and deep program retachment while congressional democrats wanted to increase additional revenue to finance their program ambitions. Throughout 80's, neither side was able to dislodge the other from its core positions.<sup>35</sup>

Similar to divided governments in presidential systems, coalition governments in parliamentary systems reduce the capacity of government priority setting as it is subject to the same risks attributed to presidential systems. Coalition governments endure as the governing parties act according to the ongoing protocol denoted as a partnership of convenience. Coalition partners have got the disadvantage of valuing the objectives of budget differently. This difference over priorities would postpone the adoption of policies. Also it must be noted that conflicts would increase in periods leading to elections.

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<sup>35</sup>Weaver,R.K. and Rockman,B.A.(1993), pp 229.



### 3.3. Ability to Impose Losses on Powerful Groups

Imposing losses on powerful domestic groups is another important and difficult capability required in reducing budget deficits. The reasoning is that deficit reduction would have to entail by tax hikes or program shrinkages. The difficulty of imposing losses arises from its concentrated, immediate, highly visible political costs while the benefits are contingent, diffuse and long-term. Also evidence suggests that voters poses a “negativity bias” that they are more aware of losses than of equivalent gains.<sup>36</sup>

When policymakers in democratic systems impose losses, they face the risk of being punished by voters at a later date. Adoption and implementation of loss-imposing proposals usually requires approval at several points, such as party, cabinet, legislature within the government. Thus in order to be able to impose losses on powerful groups, governing party leaders must be able to control their party members; prime ministers or presidents may need to overcome the opposition by promoting opponents. That is, “centralization of legislative power”, “cohesiveness of government elites”, “absence of effective veto points”, “strong party discipline”, “recruitment of ministers from the legislature” are the capabilities needed. Also, in order not to be easily blamed for the losses imposed by the powerful groups, “diffusing or limiting accountability” become important in government’s ability to impose losses on powerful groups.

Centralization of legislative power, absence of effective veto points, cohesiveness of government elites characterize majority governments in a parliamentary system and offer important opportunities to impose losses that are lacking in presidential system given that the government are willing to endure the political costs of such a proposal.

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<sup>36</sup>Picerson, P.D. and Weaver, R.K. (1993), “Imposing Losses in Pension Policy” in Weaver, R.K. and Rockman, B.A., eds., “Do Institutions Matter”, The Brookings Inst., pp 110.

Now I will discuss the capabilities needed by the governments in loss imposition which I have not discussed in the previous section: “strong party discipline”, “recruitment of ministers from the legislature” and “diffusing or limiting accountability”.

### **3.3.1. Strong Party Discipline**

The incongruence between the constituencies of individual members of parliament and the general taxpaying public is larger, as members of parliament represent electoral districts or smaller interest groups than those represented by the government as a whole. Strong party discipline mitigates this problem to some extent, as parties tend to internalize the externalities caused by individual decisions within larger constituencies.<sup>37</sup>

Political parties function in nearly every legislature to group and unite individual legislators behind common policy goals. They are important in organizing the agenda of the legislature and determining its procedures. While all legislative parties perform these same functions, there is a great deal of cross-national variation in what they do and how they do it, as political parties follow the physical, economic and demographic configuration of the country in which they operate. They are shaped, above all, by its political structure including whether it is parliamentary or presidential and in particular by the nature of the electoral system as a system of choice.<sup>38</sup>

First, legislative parties vary in regard to their connection with the executive. In parliamentary systems, members of the governing cabinet are also members of parliament and share the same party loyalty as the legislative party or coalition of parties that holds a majority. In presidential systems, legislative parties typically have weaker

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<sup>37</sup>Von Hagen, J. and Harden, I. (1996), pp 15.

<sup>38</sup>Calvert, P. (1992), pp 124.

relationship with the executive. Even though they share the same party with the chief executive, they often act independently of executive wishes.<sup>39</sup>

Second, legislative parties differ according to their internal structure and the degree of discipline that they impose on their members. Legislative parties in parliamentary systems are characterized by hierarchical structures and cohesive voting patterns. On the other hand, legislative parties in presidential systems, especially those operating in United States Congress, have collegial structures and relatively low levels of voting cohesion.<sup>40</sup> Structural conditions allow for a maximum degree of policymaking autonomy for the legislature collectively as well as for the individual legislators.

In parliamentary systems, political parties tend to be much more cohesive in the legislature than in a presidential system. If they were not, the executive would be constantly threatened with ouster from office. Also a number of parliamentary systems have moved away from the requirement that governments must win all votes to stay in power, but most still require a majority on crucial pieces of legislation such as the budget. In Germany, a cabinet can be dismissed only by a "constructive" vote of no confidence, that is, one that simultaneously elects a successor to the sitting chancellor (prime minister).<sup>41</sup>

Third, legislative parties vary according to whether they dominate the process by which members of the legislature are elected. In those political systems where parties dominate the process by nominating candidates, and financing and organizing their election, the policy making activities of the legislators are likely to be controlled by party

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<sup>39</sup>Olson, D.M. and Mezey, L.M. (1990), pp 12.

<sup>40</sup>Mezey, M.L. (1990), "Parliaments and Public Policy" in Olson, D.M. and Mezey, M.L., eds., "Legislatures in the Policy Process", Cambridge University Press, pp 207.

<sup>41</sup>Lijphart, A. (1984), "Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one Countries", Yale University Press, pp 75.

elites and thus legislators will have less latitude for action.<sup>42</sup> This would increase the government's ability to impose losses on powerful groups. But in those systems where elections are largely decentralized and candidate centered, which may lead the nomination of the candidates over the opposition of the party leaders, legislators will arrive in the legislature with few obligations to the party leaders and will have much more attitude for independent policy actions.

Legislators in proportional representation systems typically are selected from party lists developed by the central party organizations. Those who deviate from party line on important votes may find themselves dropped from the list in the next election. Also in virtually all parliamentary systems, legislators' career advancement requires cooperation with party leaders.<sup>43</sup> Also party members themselves have an incentive not to overturn a government since they would then have to stand for reelection. But this alone presumably would not be sufficient to dissuade legislators from voting against their party on matters where their constituents feel very strongly about a specific issue and thus expect deviation from the party line. Party discipline provides legislators with political power to deviate from their constituents' opinions.

Between these, the internal structure of the parliamentary parties and the number of parties represented may have also a joint impact on the policy-making role of the legislature. The policy activity of parliaments will be greater in party systems where parties are numerous and where no-one party or coalition is dominant rather than in systems where there are few parties and one party or coalition is dominant.<sup>44</sup> The increasing policy activity of legislatures make it harder for loss-imposing proposers to convince their colleagues to face the political risk of punishment by voters in the next election.

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<sup>42</sup>Olson,D.M. and Mczey,M.L.(1990), pp 10.

<sup>43</sup>Weaver,R.K. and Rockman,B.A.(1993), pp 13.

<sup>44</sup>Mezey,M.L.(1990), pp 206.

When Marku Laakso and Rein Taagepera(1979) index of “effective number of parties in the legislature” is considered, parliamentary and semi-presidential democracies can be associated with a large number of parties in their legislature whereas presidential democracies are not associated with the type of multi-party coalitional behavior as expected. The formula takes into account each party’s relative size in legislature as measured by the percentage of seats it holds:  $N=1/\sum_i^n p_i$  . Effective number of parties is the number of hypothetical equal size parties that would have the same total effect on fractionalization of the system. No presidential democracy have more than 2.6 effective political parties where of the 34 parliamentary democracies, eleven had between 3 and 7.<sup>45</sup> Although parliamentary systems involve higher number of effective parties in the legislature with respect to presidential regimes, they are more likely to impose losses on powerful groups because political parties in the presidential systems are weakly organized and fragmented.

In many Latin American presidential democracies, parties are weak and lack discipline and that representatives behave in a limited and self-interested way. But these characteristics of parties and their representatives make it possible in multi-party systems for presidencies to work. A president without a clear majority in a multi-party situation with ideological and disciplined parties would find it difficult to govern and even more difficult with an opposition majority in the congress.<sup>46</sup>

The idea of a more disciplined and responsible party system is in fact, structurally in conflict, if not incompatible with pure presidentialism. Presidents have to favor weak parties although they might wish to have a strong party of their own if it was assured a

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<sup>45</sup>Stepan,A. and Skach,C.(1994), pp 122.

<sup>46</sup>Linz,J.J.(1994), pp 34.

majority in the congress. The weakness of parties in many Latin American countries therefore is not unrelated to the presidentialism but rather a consequence of it.<sup>47</sup>

Also the relationship between the presidency and the American party system has always been difficult. The architects of the constitution established a nonpartisan president who, with the support of judiciary, was intended to play the leading institutional role in checking and controlling the "violence of faction" that the framers feared would rend the fabric of representative democracy.<sup>48</sup> Even after the presidency became a more partisan office during the early part of the century, its authority continued to depend on an ability to transcend party politics. The president is nominated by a party but, unlike the prime ministers, is not elected by it.

In summary, parliamentary systems introduces a stronger party discipline when compared to presidential system as the political parties in parliamentary systems are more hierarchically organized and cohesive. It is also clear that, political parties play a central role in a parliamentary system where as in a presidential system the personal leadership and charisma of a presidential candidate can overcome or ignore a fractionalized and unstructured party-system.

Now I will discuss the second property that differs between parliamentary and presidential systems, "recruitment of ministers from the legislature", whether it gives rise to the government's ability to impose losses on powerful groups:

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<sup>47</sup>Linz,J.J.(1994), pp 35.

<sup>48</sup>Milkis,S.M.(1994),"The Presidency and Political Parties" in Nelson, M., eds., "The Presidency and the Political System", Congressional Quarterly inc., pp 348.

### 3.3.2. Recruitment of Ministers from the Legislature

Recruitment of ministers from the legislature would increase the ability of governments in loss imposition because prime minister can persuade its opponents from his party or from parties that constitutes the governing coalition in facing the highly visible, concentrated and immediate costs of loss imposition by using ministries as promoting tools. On the negative side, it may result in the appointment of unqualified and incapable people to the ministries. This would cause inefficiencies in the policy implementation of the government.

In most parliamentary systems, heads of executive departments are drawn from the elected members of the national legislature with some exceptions like France, Switzerland, Luxembourg, Netherlands and Norway. They thus tend to bring to their jobs political experience and savy and they are more often policy generalists than specialists. On the other hand, in presidential systems like United States, members of congress are constitutionally prohibited from serving in executive positions. A cabinet member is not necessarily a professional politician indeed, most are not.<sup>49</sup>

In Finland's quasi-presidential system, about two thirds of the ministers after second world war, have always been members of the parliament but there is no binding behavioral norm prescribing that even the most important ministers should be drawn from the parliament.<sup>50</sup>

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<sup>49</sup>Weaver, R.K. and Rockman, B.A. (1993), pp 14.

<sup>50</sup>Nousiainen, J. (1988), "Bureaucratic Tradition, Semi-presidential Rule and Parliamentary Government: The case of Finland", *European Journal of Political Research*, vol 16, pp 252.

### **3.3.3. Degree of Centralization of Accountability**

While pointing out that concentration of legislative power, absence of effective veto points, strong-party discipline and cohesiveness of government elites give parliamentary systems important advantages in loss-imposition, centralization of accountability may weaken or even remove much of this advantage. Because more centralized governmental power in parliamentary systems causes more centralized accountability as well. The governing party or coalition may not face the high political costs of loss imposition and forgo these proposals that concentrated power would have allowed them to do so.

In parliamentary systems, governments are held accountable to the legislature through parliamentary debate and questioning by opposition parties, and ultimately by the threat of a vote of no confidence. They are also held accountable through the retrospective judgements of voters at the next election. Usually it is not possible to prevent a government from acting once it has decided on a course of action, but it is clear that the governing party or parties and their leaders are the ones who should be held accountable, because of building cabinet solidarity and party discipline.

Furthermore, while the centralization of legislative power in parliamentary systems increases the government's accountability, it also decreases the accountability of the opposition. The costs of blame generating by opposition parties are likely to be low, since they are already excluded from governmental power. They cannot hope to enact their own policy preferences while they are out of power, their only hope is to hinder the governments efficient policymaking capability.



On the contrary, accountability is more diffuse in presidential systems because power is shared and decisions are bargained between the branches. Knowing that legislators are not bound by party discipline makes it easier for constituents to put pressure on their representatives. As power and responsibility are so diffuse, it is often difficult for voters and interest groups to know whom to hold accountable for loss imposition.

Now I will compare parliamentary and presidential systems in the sources of Prime Ministerial and Presidential accountability which can be denoted as party, cabinet, legislature and the mass public. A broad summary of these accountability relationships is portrayed in Table 6.

Table 6  
*Sources of Accountability*

	Extent of Accountability	
	Prime Ministers	Presidents
Party	Strong	Moderate to weak
Cabinet	Strong	Nonexistent
Legislature	Weak	Strong
Mass Public	Strong	Very strong

Source : Nelson,M.(1994), “ The Presidency and the Political System”, Congressional Quarterly, pp 69.

One of the negative characteristics attributed to the parliamentarism in accountability issue denotes that the person voting for representatives of a party presumably does not know, who the party will support to be the prime minister and if it is a multi-party regime in which a party cannot expect to gain an absolute majority, the voter does not know what parties will form a governing coalition. But in most cases, this is not the case because parties are identified with highly visible leaders. Those leaders appeal directly to the voters, and the campaigns for elections increasingly are focused on the leader who aspires to be the prime minister.<sup>51</sup>

Presidents depend very little on cabinet or party approval, but they are greatly dependent on the Congress, assuming that their activities require legislative approval. For prime ministers, however, party and cabinet are intimately connected. Such a connection in the United States is much fainter where the structures are less clearly demarcated. A president can control the formal party machinery at the national level, but most of the action in political parties remains at the state and local level. In contrast, prime ministers are much more dependent on and therefore more accountable to their cabinets and their parties. In sum, presidents are usually, less inhibited than prime ministers. But they also tend to be more vulnerable because the process is more visible and open and thus not easily controlled through prearranged agreements.<sup>52</sup>

On the other hand, in a presidential system there is no way to hold accountable a president who cannot be presented for reelection. Such a president can neither be punished by the voters by defeat nor rewarded for success by reelecting with the same or a larger vote than in the previous election. A president who cannot be reelected is "unaccountable". It could be argued that in the case of no reelection the party that

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<sup>51</sup>Linz,J.J.(1994), pp 11.

<sup>52</sup>Rockman,B.A.(1994), pp 69.

supported the election of the president would be held accountable, but in fact the party's new presidential candidate is the person accountable.<sup>53</sup>

In conclusion, accountability in a presidential system is hard to enforce. Individual legislators and the president usually can be held individually accountable. Accountability is diffused, divided and targeted at individual politicians through the system of weak parties and candidate centered politics. Since parties are not responsible and accountable for government stability and policy, because those are the tasks of the president, they are likely to concentrate their efforts on opposing, criticizing and perhaps fiscalizing the executive but not to give it support, respond to its policy initiatives or assume responsibility for them.

In a parliamentary system, however, the governing party or parties of a stable coalition can be held accountable easily to the voters, as long as the voters do not exclude in principle a vote for parties in the opposition. Governing parties, their leaders and even the prime minister cannot be made accountable under the certain conditions of instability, shifting coalitions and no dominance occurring in the coalition-making process.

Now the important question is whether the opportunity to impose losses afforded by the centralization of legislative power is outweighed in practice by the risks posed by increased accountability, that is, governing party or coalition's fear that it will be identified with and punished for these losses. Weaver and Rockman(1993) discuss the relative influences of concentration of power and accountability effects on loss imposition in pension policy in United States, Canada and Britain, and suggest that both effects are present and that the concentration of power effect appears to be stronger.

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<sup>53</sup>Linz,J.J.(1994), pp 13.

Divided governments in the presidential system and coalitions in the parliamentary system may provide opportunities in diffusing the accountability but this would not improve the ability to impose losses on powerful groups because at the same time they weaken the concentration of power, cohesiveness of government elites by increasing institutional oppositions. In fact, relative effects of these influences may depend heavily on the structure of existing policy and the proximity of elections.

As accountability introduces important risks for governmental loss imposing capabilities, differences in the length of the electoral cycles that increase or weaken accountability can be important. Short electoral cycles may be an important obstacle for loss imposition because politicians would like to leave a lot of time for the pain of loss imposing initiatives to be forgotten. In this sense, United States-Separation of Powers system introduces little opportunity for such initiatives as elections are held every two years for the house and one-third of the senate.<sup>54</sup>

### **3.4. Effective Allocation of Resources**

Effective allocation of resources involves both the ability to allocate resources to areas where they yield highest social welfare and to implement projects at minimum cost. Diverse political constituencies may be required in implementation to induce their cooperation or compliance with policies they may provide to be against their self-interest.

The vulnerability to a political constituency in order to stay in power may not have positive consequences for economic growth unless they allocate resources where they will yield most efficient outcomes economically.

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<sup>54</sup>Weaver, R.K. and Rockman, B.A. (1993), pp 148.

Centralization of power in parliamentary systems offers major advantages in effective allocation of resources. In a simple or multi-party majority government there are relatively few points at which limited interests can gain access and make demand of resources. Party discipline also limits the value of legislators' efforts to act as advocates for local interests. Presidential system, on the other hand, introduces many points of access in legislative committees and in the need to build coalitions on the floor of legislative chambers. Easy access also allocates disproportionate influence to those with power, such as members of legislative authorizing committees and appropriating subcommittees, either rewarding those members disproportionately or producing an overly broad distribution of benefits so as to ensure stable legislative majorities.<sup>55</sup>

Now, the question, whether allocation of resources in parliamentary systems is less politicized or whether the politics simply is better hidden resulting in a distribution of benefits that is different but not necessarily better, arises. In parliamentary systems, political influences on allocative activities can occur in the bureaucracy and within the cabinet. The lack of checks may lead to a highly centralized allocation process that is used to favor the ruling party or coalition rather than promote allocation of resources where they would be more effective and required.

In order to overcome the partisan effect of political pressure in allocating resources, government needs "bureaucratic strength and autonomy". In addition to this, "level of interest group access and influence" is also important in maintaining effective allocation of resources. Now I will compare parliamentary and presidential systems in these issues.

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<sup>55</sup>Shepsle, K. and Weingast, B.R. (1981), "Political Preferences for the Pork Barrel: A Generalization", *American Journal of Political Science*, vol. 25, pp 96.

### **3.4.1. Bureaucratic Strength and Autonomy**

Autonomous and strong fiscal bureaucracies are often seen as prerequisites for effective allocation of resources as they can act independent of elected politicians, and produce more stable, consistent policies.

Hahn, Kamlet and Mowery (1996), directly analyzes the influence of “strength of fiscal bureaucracy” on the size of a country’s fiscal deficit in nine industrialized democracies during 1958-1990. They state that, empirically, “stronger a country’s fiscal bureaucracy, the lower its deficit” as consistent with the idea that strong fiscal bureaucracy will cause effective targeting of resources which is an important aspect of reducing budget deficits. Strength of fiscal bureaucracy is including the centralization of budgetary decision making, dominance of Ministry of Finance over other ministries within the executive branch and the degree to which senior officials in the Ministry of Finance are insulated from control by the head of the government by their career status.

Presidential and parliamentary regimes differ also in their bureaucracies whether it is professionalized and unified or possess a monopoly on expertise. They differ also in degree of discretionary authority that their bureaucracies wield.

Bureaucracies in the presidential systems have been seen as having a relatively weak bureaucracy heavily penetrated by political appointees at the top, subject to political interference at all levels, and prodded in inconsistent directions. It is highly constrained and formalized, encumbered by a complex array of structural mechanisms that limit the discretion of agencies and their personnel. This makes it difficult to target resources effectively in the presidential system. On the other hand, the bureaucracies of parliamentary systems are not entirely unbureaucratic in these respects but they are

formalized and constrained than presidential bureaucracies are. They granted more discretion to pursue their policy missions as they see fit. They are free of the burdensome layering of executive and legislative constraints. It is also more likely, owing to the unchallenged authority of the party, to resemble a coherent, top-down hierarchy.<sup>56</sup>

Short term autonomy of elites, that the degree to which government elites need to be responsive to short term group pressures and electoral considerations, is also important in maintaining bureaucratic strength and autonomy. There is also substantial difference between parliamentary and presidential government in this issue.

A single party majority government in parliamentary system is best able to resist such pressures. Minority parliamentary systems or those with tenuous parliamentary coalitions do not have the luxury of choice. They must generally tailor positions in the short run to maintain majority support. On the other hand, political elites in presidential system are in an intermediate position: They do not need to be concerned with losing their posts by bringing on premature elections, but they do not need to build coalition if they wish to get their policy preferences enacted.<sup>57</sup>

The absence of elite short run autonomy is especially likely to inhibit effective targeting by making logrolling coalitions more necessary. It is also likely to affect government capability to impose losses on powerful groups.

All I have mentioned about strength and autonomy of bureaucracy up to now have concentrated on the allocation of resources where they will yield highest social welfare. It is also important to consider the implementation of projects at minimum cost in order to reach a full idea of effective allocation of resources.

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<sup>56</sup>Moe, T. (1990), "Political Institutions: The Neglected Side of the Story", *Journal of Law, Economics, and Organization*, vol. 4, pp 239.

<sup>57</sup>Weaver, R.K. and Rockman, A.R. (1993), pp 27.

Following Vogel (1986), we can compare the regulatory bureaucracies in presidential and parliamentary systems by considering the environmental agencies of the United States and British Westminster model. Both systems reduce pollution but British system do so with lower costs. United States' system is a political mess by comparison. In United States, regulation is rigid, rule-oriented, leaving little discretion for regulators. In contrast, British system is more flexible leaving more case by case discretion to bureaucrats.<sup>58</sup>

In conclusion, parliamentary systems provide more opportunities in effective allocation of resources when compared to presidential systems.

### **3.4.2. Interest Group Access and Influence:**

To the extent that interest groups focus their demands on the legislature, they may succeed in encouraging legislators to act independently of the executive. Party and executive elites, in whose interest is to minimize legislative influence, will work to insulate legislators from the interest groups. Increasing interest group influence would weaken the effective implementation of government policies by reducing the ability to set and maintain priorities, impose losses on powerful groups and especially to target resources effectively.

Interest groups vary according to what extent they are functionally specialized. More functionally specialized interest groups have relatively more homogeneous membership and they focus on relatively more narrow set of issues of specific concern to most of the members. In those legislatures where committee system is strong, they direct their effort on the committees whose jurisdictions match their interests and they do so as

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<sup>58</sup>Moc, T.M. and Caldwell, M. (1994), pp 184.



frequently as they involve themselves with relevant administrative agencies. Thus, legislative policy participation will increase as interest groups are functionally specialized and homogeneous in composition.<sup>59</sup>

One of the traditional roles of the legislature is to provide an arena in which conflicting groups can articulate their views. Thus, the legislature should have a more visible role when groups conflict than in instances of group harmony leading to the idea that the parliamentary policy will increase as interest groups disagree among themselves. Also it is true that the policy activity of the parliaments increase as the interest groups disagree with the operating bureaus.<sup>60</sup>

In the presidential system, interest groups of many kinds can gain access and exercise influence at numerous points in the policymaking process. One strong tradition in the literature on American politics argues that "iron triangles" tend to develop between interest groups, bureaucracies that service those groups and congressional oversight committees. As access is relatively open in United States, interest group influence may be broadly dispersed and variable over time.<sup>61</sup>

In parliamentary systems, centralization of legislative power presumably decreases the alternatives open to interest groups, and party discipline makes appeals to individual legislators an almost hopeless strategy in terms of changing policy outcomes<sup>62</sup>. The bureaucracy and cabinet ministers are the main points of access open to interest groups. It is also usually impossible to reverse a governments position (if it has a majority) once that position has been taken.

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<sup>59</sup>Olson,D.M. and Mezey,M.L.(1990), pp 12.

<sup>60</sup>Mezey,M.L.(1990), "Parliaments and Public Policy" in Olson,D.M. and Mezey,M.L.Olson,D.M. eds, "Legislatures in the Policy Proces", Cambridge University Press, pp 205.

<sup>61</sup>Weaver,R.K. and Rockman,A.R.(1993), pp

<sup>62</sup>Arter,D.(1984), "Nordic Parliaments: A Comparative Analysis", St. Martin's Press, pp 31.

In parliamentary systems, interest groups such as labor unions, realtors and the construction industry concentrate efforts more on relevant ministries than the legislature. Interest groups are important in monetary politics and their activities may relate to increases in legislative interest. Bankers, arguably the most important interest group, tend to work directly with the central bank.<sup>63</sup>

On the other hand, structural relationships between interest groups and political parties and cabinet members are often even more direct in countries characterized by multiple parties and coalition governments such as labor unions and business organizations, agrarian groups and environmentalists.

In presidential systems, interest groups have a special fear of the president, but their fears are limited by separation of powers because legislators share public authority with him, check his power, have great power of their own and are very open to what the groups want. The state is internally divided. On the other hand, in parliamentary systems, interest groups fear from the majority party. The party has its own agenda, its own views about what public bureaucracy ought to look like and substantial autonomy to exercise public authority in ways to contrary to group interests. But interest groups have much more to fear in this kind of system, because the party, unlike the president, has a monopoly of public authority. Groups are especially motivated, then, to find means of protecting themselves from the party, the state, and its capacity for autonomous action.

With these in mind, parliamentary system also poses two distinctive risks for representation of diffuse interests. First, without intense interest by significant number voters, leaders are apt to pay little attention to the political representatives of diffuse interests, for the simple reason that they do not need their support in order to govern. A second risk is that policy gains will be reversed, especially when there is a change in

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<sup>63</sup>Leloup, L.T. and Wooley, J.T. (1990), "Legislative Oversight of Monetary Policy", in Olson, D.M. and Mezey, M.L eds, "Legislatures in the Policy Process", Cambridge University Press, pp 55.

government or a decline in public interest. On the contrary, United States' separation of powers system facilitates the political representation of diffuse interests by lowering the cost of access as it is not necessary to command the support of a significant number of voters to affect the decisions of a congressional committee. Also mechanisms of access and substantive policies favoring diffuse interests cannot be easily repealed because of multiple veto points in the separation of powers system.<sup>64</sup>

In order to give an example, interest groups activity increased on the federal level in the 80's as the threat of cutbacks made them more sensitive in protecting their programs. Even if they shared the view that big deficits damage national interests, they could not agree on what should be done to cure the problem. The extraordinary procedures devised in the 80's to deal with fiscal issues, budget summits, reconciliation process, tried to weaken groups in making budget policies. But these special procedures lost much of their effectiveness as politicians and groups learned how to exploit or neutralize the new rules.<sup>65</sup>

Divided governments in presidential system and coalition governments characterized by proportional representation in parliamentary system offer advocates of diffuse interests greater opportunities for access and responsiveness. Now it is clear that diffuse interests are likely to be best represented in a presidential system and least in single-party dominant parliamentary system. Coalition governments appear to fall somewhere in between.

In conclusion, interest group access in parliamentary system is often more structured and executive-centered than in the presidential system. But this does not mean that interest groups are less influential.

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<sup>64</sup>Vogel,D.(1993), "Representing Diffuse Interests in Environmental Policymaking", in Weaver,R.K. and Rockman,B.A. eds., "Do Institutions Matter", The Brookings Institution, pp 266.

<sup>65</sup>Shick,A.(1993), pp 234.

#### 4. CONCLUSION

The choices of political institutions, especially whether the system of government is parliamentary or presidential, affects the capacity of government to reduce budget deficits. It is clear that, when nations are choosing a parliamentary or presidential form, they are in fact choosing a whole system whose properties will arise endogenously. These properties, giving particular decision making attributes to the governments, will contribute to their policymaking capabilities in substantially differing policy areas.

A particular decision making attribute while strengthening one policymaking capability may decrease another one at the same time. For example, concentrated power would be better for imposing losses on powerful groups, whereas it would be worse for cleavage management, capability which is important for aspects of governance not directly related to budgetary policymaking. Because of this, the important concern is to determine the policy objective at first and then to specify the policymaking capabilities that are needed in reaching this objective. A comparison of the parliamentary and presidential systems can be made according to how their policymaking attributes give rise to these specified capabilities. Under differing policy objectives, it is clear that the government system that will introduce more opportunities will also differ.

This study has focused on the problems of the budget process, namely, the common pool problem, and focused on the policymaking capabilities needed in overcoming these problems and thus reducing budget deficits. These policymaking capabilities are specified as “setting and maintaining priorities among many conflicting

demands”, “ability to impose losses on powerful groups” and “effective allocation of resources”. Parliamentary and presidential systems are compared according to these capabilities which are influenced by the policymaking attributes such as “strong party discipline”, “centralization of legislative power in the cabinet”, “cohesion of government elites”, “absence of effective veto points”, “centralization of accountability”, “recruitment of legislatures from the legislature”, “bureaucratic strength and autonomy” and “level of interest group access and influence”.

In parliamentary systems, centralization of legislative power in the cabinet, elite cohesion, and a small number of effective veto points all provide important opportunities for setting and maintaining priorities among many conflicting demands. It must also be noted that, even minority governments in parliamentary systems, despite their susceptibility to less elite cohesion and multiple veto points, provide important opportunities in setting priorities among many conflicting demands.

With these in mind, I also mentioned that government instability has been one of the strong arguments against parliamentarism but also introduced the forgotten perspective following from Mainwarring, that there is a greater cabinet instability in presidential systems.

Between government stability, the degree of divergence between alternative proposed policies, that is, the degree of the polarization of the political system, is also mentioned to have an impact on setting and maintaining priorities among many conflicting demands. More polarized political systems are associated with larger public debts. In the more polarized political systems, thus, it can be proposed that parliamentary regimes would be more successful in reducing budget deficits as they involve more concentration of power and cohesiveness of government elites and less opportunity of access in their policies. I pointed out also that, in such systems, it would be appropriate to

implement majoritarian electoral systems in order not to create coalitions reducing concentration of powers and cohesion of government elites. Note that polarization of political system would introduce higher risks in coalition governments in parliamentary and divided governments in the presidential systems whereas presidential system ranks between these two and the single party majority governments in parliamentary systems.

Centralization of legislative power in the cabinet, cohesiveness of government elites, strong party discipline and absence of effective veto points in parliamentary systems provide important opportunities for imposing losses on powerful groups but that increased concentration of accountability in those systems weakens that advantage. The first effect is probably stronger on average following from the case study of Pierson and Weaver on pension cuts in Britain, Canada and United States. Greater distance from elections may have a dramatic effect on strengthening the capacity to impose losses regardless of the system. The recruitment of ministers from the legislature in parliamentary systems, which does not exist in presidential systems, may also increase the ability to impose losses. Coalitional governments in parliamentary systems are likely to find it particularly difficult to impose losses on powerful groups. On the other hand, presidential systems provide little opportunities in loss imposition stemming from the diffused accountability but significant risks stemming from multiple veto points.

In effective allocation of resources, attention is focused on the government ability to allocate resources where they will produce more efficient outcomes and government ability to implement projects at minimum cost. Parliamentary systems appear to have significant potential in effective allocation of resources with their stronger bureaucracies, autonomy of government elites from short-term political pressures, absence of effective veto points and less access and influence of interest groups in the policymaking process. On the contrary, presidential system lacks all these attributes which give rise to the effective allocation of resources.

Based on the preceding analysis, we can conclude that the government ability to reduce budget deficits would be higher in parliamentary systems than in presidential systems because in all three required capabilities, parliamentary system introduces more opportunities and less risks than presidential systems do. These results are summarized in table 7 briefly.

The similarities in capabilities between the presidential system and coalition governments in parliamentary system should not be surprising, given that they tend to resemble each other and to differ from most party-government and single-party dominant regimes in most of the decision making attributes. Both systems are likely to have less elite cohesion than the other parliamentary regime types and both are more likely to have significant continuity in elected policymaking elites after elections. Of course, there are also differences between the two that affect some capabilities. This is, because presidential system relies more upon multiple veto points, and involves less concentrated power, and weaker party discipline.

On the other hand, divided governments in presidential system obviously lowers elite cohesion, and increases the importance of multiple veto points that inhere in presidential system further. It also reinforces short-term electoral pressures for leaders of the executive and legislative branches of government to generate blame against other. I have also mentioned that, divided governments increases the risks of bidding up and stalemate even further.

The relatively low ability of presidential systems in reducing budget deficits can be increased by allowing president to dissolve congress for new elections or allowing congress to remove president by a vote of no confidence. This would increase elite cohesion and concentration of power in presidential systems. Enhancing central party control over legislative candidates such as replacing individual constituencies with party lists may be appropriate.



Table 7  
*Policymaking Attributes in Parliamentary and Presidential Systems*

	Parliamentary System		Presidential System		
	Single-party Dominant	Party Government	Coalition	Unified Government	Divided Government
Centralization of Legislative Power in the cabinet	High	High	Highly variable	No	No
Cohesion of Government Elites	High	High	Highly variable	Highly variable	Less
Effective Veto Points	Few	Few	Variable (equally complex, if less formal veto system than unified)	High	Higher
Effect of polarization and stability	Low	Low	High	Low	High
<u>Setting and Maintaining Priorities among many conflicting Demands</u>	High opportunities, no significant risk	High opportunities, no significant risk	Low opportunities, risk	No significant opportunity, more risks	No significant opportunity, more risks
Party Discipline	Strong	Strong	Strong	Weak	Weak
Recruitment of Ministers from the Legislature	Yes	Yes	Yes	No	No
Centralization of Accountability	Highly Centralized	Centralized	Less Centralized	Diffused	More Diffused
<u>Ability to impose losses on powerful groups</u>	High opportunities, risk	High opportunities, risk	Low opportunities, risk	Opportunity, more risks	More opportunity, more risks
Bureaucratic Strength and Autonomy	Strong	Strong	Strong	Weak (Formalized and Constrained)	Weak
Short-term Autonomy of Elites	Strong	Strong	Weak	Less Strong	Weak
Level of Interest Group Access and Influence	Low	Low	High	Higher	Highest
<u>Allocation of Resources Effectively</u>	High opportunities, no significant risk	High opportunities, no significant risk	Low opportunities, risk	Opportunity, more risks	No significant opportunity more risks
<u>Ability to reduce Budget Deficits</u>	Highest	High	Low	Low	Lowest

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