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**The Role of Electoral and
Party Systems in the
Development of Fiscal
Institutions in the Central
and Eastern European
Countries**

Working Paper

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The Role of Electoral and Party Systems in the Development of Fiscal Institutions in the Central and Eastern European Countries

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Abstract

The literature on fiscal institutions has established a connection between the design of fiscal institutions and a country's political fundamentals. The paper includes a review of the party and electoral systems in the Central and Eastern European countries (the CEECs) and then reaches conclusions on what modes of fiscal governance ("commitment", "delegation", "fiefdom") these countries should have developed based on their political fundamentals. Two major conclusions stand out. First, all of the countries have multi-dimensional social cleavage space which, together with the dominance of proportional electoral systems, suggests diverse party systems. This is a recipe for multi-party governments. Indeed, coalition governments have been dominant in the CEECs suggesting in turn that the majority of these countries should be leaning towards commitment approach. Second, the collapse of communism and consequent social changes led rather unsurprisingly to a certain political turmoil. This was evident especially during the first half of the 1990s. Some countries were affected more than others. Party structures have been in a constant change and reforms in the electoral laws have not been uncommon resulting in some countries to frequent shifts between different government types. This suggests that these countries have not been able to develop a coherent way to tackle the common pool resource problem. The reality largely confirms these expectations. The results therefore indicate that no "one-size-fits-all" solutions exist in fiscal management. Consequently, the design of such institutions should pay due attention to the political factors, alongside with the economic ones. The results indicate further that a certain degree of political stability is a prerequisite for stable fiscal conditions.

1 INTRODUCTION¹

Economic and political integration of the Central and Eastern European countries, or the CEECs, with European Union and the challenges introduced by the economic transition and the catching-up processes have highlighted the importance of fiscal management in these countries.² Besides economic transition, these countries have obviously been subject to political transition, too. Indeed, political transformation was an inseparable part of the whole transition process as the communistic system collapsed and other forms of government were sought for. The role of government had to be re-defined and the system of governance rebuilt.³

The literature on fiscal institutions argues that the underlying reason for excessive spending stems from the common pool resource problem, or the CPR problem.⁴ Government spending is often targeted at specific sub-sets of population while being paid by the general population. The implication is that policymakers systematically overestimate the net marginal benefit of increased public spending. This fragmentation of budget process can be overcome by centralising the budget process.

More specifically, the existence of fiscal biases stemming from political economy aspects has served as a justification for two ideal ways to promote centralisation of the budget process, and consequently fiscal rigour: *commitment* via set of binding limits or targets on fiscal aggregates which are negotiated collectively at the beginning of a budgetary process, and *delegation* of significant fiscal powers to "a fiscal entrepreneur" (prime minister or "strong" finance minister). Finally, countries that have decentralised budget processes and that have thus done little to address the CPR problem are referred to as *fiefdom* governments. Spending ministers consider their spheres as their own "fiefdoms" and there are no mechanisms in place to encourage taking a global view on the budget process.

The significance of political fundamentals in relation to fiscal institutions has to do with different modes of fiscal governance outlined above, namely delegation, commitment and fiefdom. Hallerberg and von Hagen, 1999 and Hallerberg, 2003 establish a connection between the design of the fiscal institution and a country's electoral system. They show that the distinction between one-party and multiparty governments affects which type of fiscal institution (i.e. delegation or commitment) a country will (should) use to promote fiscal discipline. In states with plurality systems where one-party

¹ This paper is based on parts of Yläoutinen (forthcoming). I would like to thank Mark Hallerberg, Kenneth Benoit and Drago Zajc for useful comments. All the views are my own. Financial support from Yrjö Jahnsson Foundation is gratefully acknowledged.

² Here, the Central and Eastern European countries, or the CEECs, refer to Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

³ Notable exceptions from this pattern are China and Vietnam where economic transition has started without significant modifications in their political systems.

⁴ See von Hagen, 1992, von Hagen and Harden, 1994 and 1996.

governments are the norm, centralisation can be achieved effectively by delegating strong fiscal powers to a finance minister, whereas in states with systems of proportional representation, and where multiparty coalitions are the common form of government, the CPR problem is solved by a commitment to fiscal targets negotiated among the coalition partners. If a country has been exposed to volatile political conditions and neither of the government types has been dominant, it is unlikely that effective fiscal institutions can be developed in such conditions. This suggests fiefdom approach.⁵

The reason why one-party governments can be expected to opt for delegation approach follows from the expectation that members of the same political party are likely to hold similar views. The players therefore share the same views regarding the distribution of funds and conflicts of interest arise only from the CPR problem. In a coalition government, in contrast, cabinet members are more likely to have different views regarding the distribution of transfers. Agreement of the budget therefore involves a compromise between the coalition partners. Delegating agenda-setting powers to the finance minister creates a problem because he is a member of one of the coalition parties himself, and a delegation creates a principal agent problem. The problem does not arise in the case of commitment, since fiscal targets are negotiated collectively.

The second distinction between delegation and commitment approaches follows from the scope and strength of the punishments and rewards a finance minister can use to assure the adoption of his proposal. During the budget negotiations, the finance minister's power must be backed by the prime minister and since the prime minister in one-party government is the strongest cabinet member, his backing gives the finance minister considerable fiscal powers over spending ministers in a single-party government.

Finally, the scope of punishments for defecting from an agreed budget forms the third distinction. In a one-party government, the ultimate punishment for a single cabinet member who overspends is dismissal from the government. Since consequences from such punishment are mild for the government as a whole, it is fairly easy for a prime minister to enforce. The threat that the coalition breaks up if a spending minister overlooks the contract agreed collectively forms more effective punishment mechanism in the case of coalition governments.

This branch of literature therefore states that while fiscal institutions do have an important role in providing fiscal rigour, such institutions can not be examined in isolation from broader political context. In other words, as fiscal institutions are designed to affect the behaviour of political actors, such as political parties, individual ministers or parliament members, a consideration of

⁵ "Political instability" or "political volatility" could undoubtedly be defined in a number of different ways. In this paper, the focus is on the stability of the government types. In other words, a country is seen as politically instable if it has not developed stable patterns in its government types. Government type, in turn, refers here to a distinction between multi-party and single party governments, and between minority and majority governments.

such arrangements have to take into account underlying political fundamentals which undoubtedly have an effect on the behaviour of political actors.⁶

The focus of this paper is on the Central and Eastern European countries. In particular, the paper includes a careful review of the party and electoral systems in the CEECs, and then reaches conclusions on what modes of fiscal governance (commitment, delegation, fiefdom) these countries should have developed based on their political fundamentals. Two major conclusions stand out. First, all of the countries have multi-dimensional social cleavage space which, together with the dominance of proportional electoral systems, suggests diverse party systems. This is a recipe for multi-party governments. Indeed, coalition governments have been dominant in the CEECs suggesting in turn that the majority of these countries should be leaning towards commitment approach. Second, the collapse of communism and consequent social changes led rather unsurprisingly to a certain political turmoil. This was evident especially during the first half of the 1990s. Some countries were affected more than others. Party structures have been in a constant change and reforms in the electoral laws have not been uncommon resulting in some countries to frequent shifts between different government types. This suggests that these countries have not been able to develop a coherent way to tackle the CPR-problem. In other words, the fiscal institutions in the countries with volatile political conditions should have developed features from fiefdom approach.

Yläoutinen, 2004 performs an extensive review of the details of fiscal institutions and frameworks in the CEECs and shows that the development of fiscal institutions in these countries has in general followed the expectations that stems from the review of the political fundamentals.

These types of studies can not, of course, establish a direct causal relationship, but the results indicate that the ways to which the fiscal institutions have evolved are not random. This suggests that no “one-size-fits-all” solutions exist in fiscal management. Consequently, the design of such institutions should pay due attention to the political factors, alongside with the economic ones.

The paper is organised as follows. Chapter two of this paper discusses what role electoral and political systems have in countries’ tendency to adopt a certain type of fiscal institution. In addition to a simple multi-party vs. single-party comparison, additional features of the party systems that affect the incentives for a government to centralise the budget process need to be analysed before such conclusions can be drawn. These include such factors as the degree of ideological differences between government parties and the overall stability of electoral and party systems. Since many of these factors are difficult to quantify exactly and because the CEECs do not constitute a

⁶ See also Poterba and von Hagen, 1999 who note that “[...] the work [...] suggests an intimate connection between the design of the budget process and other dimensions of a country’s constitution [...]. Budgetary institutions that work in one constitutional context may fail to work in others, because they do not provide the proper incentives and constraints to promote and enforce agreement on efficient levels of spending and deficits.” (11)

homogenous group, there is a need for a country-specific discussion. This is done in the third chapter. This discussion allows one to draw conclusions on what type of fiscal institutions the CEECs should have developed based on their political fundamentals. This is done in the concluding fourth chapter.

2 WHAT EXPLAINS THE DEVELOPMENT OF FISCAL INSTITUTIONS?

The theory predicts that a government type is one of the crucial factors determining what type of fiscal institution approach a country is likely to employ.⁷ This is because the number of players within the government and their mutual dynamics affect greatly the willingness of the players to centralise the budget process and the effectiveness of fiscal institutions.

Electoral systems and their effect on party formation have received a fair share of attention in the literature. Duverger, 1951 was the first one to describe how electoral rules shape a nation's political party system. His main idea was that high thresholds favour large parties against small ones, and consequently electoral systems with majoritarian elements – as we will shortly see – are conducive to two-party system.

Duverger's views have been criticised for having the direction of causality backwards; electoral systems are themselves endogenous since parties can, and often do, shape electoral systems; it is thus the party system that shape electoral institutions, not the other way around. Duverger and his descendants have also been accused of having overlooked the importance of social cleavages for the party formation.⁸

The proponents of this alternative approach emphasise the role of social cleavages in the society, such as ethnic, religious or language issues or socio-economic differences, in party formation; if a country has only one cleavage, say left-right cleavage, it is more likely that this country has only two main party blocks each promoting ideology that mirrors this cleavage.⁹ If a country simply does not have ethnic minority, for example, there would not be much demand for a party who would be a champion for ethnic issues.

It is likely that both of these views have an effect to party formation. Neto and Cox, 1997, argue, among others, that these approaches are not mutually exclusive as cleavages and electoral systems do interact. Therefore, the number of parties is a product of both of these factors.

Putting the question about the direction of causality aside, the link between features of electoral systems and number of parties is well

⁷ Again, note that government type refers here to a distinction between multi-party and single party governments, and between minority and majority governments.

⁸ For a review of this discussion, see Cox, 1997.

⁹ Lipson 1964, Lipset and Rokkan, 1967. The latter presented the famous "freezing hypothesis" according to which the party systems in Western Europe had frozen during the 1950s and 1960s along the cleavage structures.

established.¹⁰ Electoral systems can be thus expected to have a major impact on the government type. This follows from their influence on the likelihood of one party winning the majority of seats in the parliament, and therefore having an ability to form a one-party majority government.

While there is large number of details within different election systems, two main categories can be distinguished. *Plurality-majority systems* almost always use single-member districts, meaning that the candidate who receives most votes in an electoral district gets elected. On the other hand, *proportional representation systems*, or PR systems, attempt to reduce the disparity between a party's share of the national vote and its share of the parliamentary seats. If a "large" party wins 30 percent of the votes, it should gain approximately 30 percent of the seats, and a "small" party winning five percent of the votes should consequently gain five percent of the total seats in the parliament.

Under majoritarian systems, a party needs to win majorities to get its candidates elected, and thus these systems do not encourage multipartism. Indeed, plurality-majority systems tend to produce two-party systems, and consequently single-party governments, whereas the PR systems yield multi-party systems and therefore multiparty governments. In other words, systems which operate under lower proportionality favour larger parties, and the fewer parties there are in the parliament, the easier it becomes for a single party to form a government.¹¹

Indeed, number of parties is clearly an important element in government formation. If a country has only few parties, it is more likely that one party can gain enough seats to form a majority on its own. At the extreme, if a country only has one party, there is not much uncertainty as to what will be its government type. The "effective number of parliamentary parties" describes the relative power parties have in the parliament. If there are, say, four equally strong parties, the number of effective parties is four. But if two of these parties hold 40 percent of the seats and the other two only 10 percent each, the number of effective parties is reduced to 2.9.¹² Therefore, as the number of effective parties diminishes, we witness a parliament dominated by fewer parties. Put in another way, PR systems are likely to have larger number of effective parties

¹⁰ In addition to references made above to Duverger's work, see Taagepera and Shugart, 1993.

¹¹ One can also make a distinction between minimal winning coalitions – which do not include parties that are not necessary to reach majority in a parliament, oversized cabinets – which contain more parties than are necessary for majority support, and minority cabinets. Lijphart, 1999, 90-96, includes a discussion on different coalition theories that predict which type of coalitions is the most likely one if no single party can form a majority government on its own. In a nutshell, these theories range from the ones which consider the number of parties as the most crucial factor (parties want to exclude unnecessary partners from cabinet to maximise their share of cabinet posts and power) to theories which emphasise the role of policy preferences (parties with similar policy preferences form and maintain coalitions more easily). Lijphart notes that the latter have been able to predict the actual cabinet coalitions better than the former.

¹² See annex 1 for the exact formulas for different measures mentioned in this section.

than plurality-majority systems.¹³ Consequently, the former systems should be conducive to multiparty governments.

The effective number of parties is linked with a district magnitude, which is one of the most crucial characteristics of any electoral system. In PR systems, proportionality is generally increased with district magnitude.¹⁴ The systems which aim to achieve larger proportionality will utilise large districts, because such districts are able to ensure that also small parties can gain representation in the parliament. Thus, countries with smaller district magnitudes are likely to have fewer effective parties.

Effective threshold provides yet another measure for proportionality. This measure refers to minimum level of support that a party needs to win seats in a parliament: high thresholds imply low proportionality. Consequently, high thresholds are associated with low district magnitudes. But proportionality can also be affected by a legal threshold which many of the CEECs have decided to employ. For example, Slovakia has an assembly with 150 members and a single district. District magnitude is therefore very large, 150, and mechanically calculated effective threshold would be small, only 0.5 percent implying that a party that receives mere 0.5 percent of the total vote could expect to gain representation in the parliament. However, electoral law of Slovakia establishes a legal threshold of 5 percent which prevents candidates from very small parties from getting elected.¹⁵

Therefore, based on this discussion one would expect majority-plurality systems (or PR systems with low district magnitudes and high threshold) to be conducive to one-party governments, and PR systems with high district magnitudes and lower thresholds to be associated with majority multi-party governments.

As noted above, the number of parties is not only a product of electoral systems, but also cleavage structures play a role; the number of cleavages in a society can have an effect on party formation. Cleavage structures also mirror the ideological polarisation of a society, which too can have an important role in the choice of fiscal institutions. One should note that strictly speaking the number of parties is crucial for the choice of fiscal institutions only to the extent that it reflects ideological differences between the players within the government. The theory stated that one of the reasons why one-party governments can be expected to opt for delegation approach follows from expectation that members of the same political party are likely to hold similar

¹³ This link has been confirmed by empirical studies; see Lijphart, 1984 and 1994, and Taagepera and Shugart, 1993.

¹⁴ In majoritarian systems district magnitudes greater than 1 would increase disproportional outcomes. As Lijphart, 1994 explains, at the extreme, a single nation-wide district would give all seats to a party winning majority, assuming strict party-line voting. Therefore, single-member districts in majoritarian systems limit the degree of disproportionality. (20)

¹⁵ A further feature of electoral systems that is not considered here, but that affects proportionality, is mathematical methods for converting votes into seats under PR systems. Shvetsova, 1999 presents a survey of these formulas and other features of electoral systems employed in the CEECs. The country-specific text below in chapter 3.2 will pay attention to these formulas when considered appropriate.

views, whereas in a multi-party government cabinet members are more likely to have different views regarding the distribution of transfers.

Therefore, the number of parties is not *per se* necessarily the crucial factor; what can also matter is the ideological difference between the government parties. Multi-party governments that are formed as a rule between parties with few ideological differences may find it easier to delegate fiscal powers to finance minister. This set-up would be conducive to delegation approach, even if multi-party governments were the norm.¹⁶

One should not however interpret this point too strictly, as it is quite probable that parties seeking to form a coalition are likely to prefer partners that hold similar views to their own. Therefore, one would expect that parties within the coalition have fewer ideological differences that they do with the opposition parties. What is crucial is whether those parties are political rivals in the elections or if they run for assembly as a block or alliance. If they compete for votes, they are more unlikely to give fiscal powers to their rivals.¹⁷

In sum, a review of electoral systems and cleavage structures are both needed to come to a conclusion on what type of fiscal institution a country is likely to develop. If a country has a simple cleavage space, or if it employs an electoral system with majoritarian elements, it is likely that two main parties, or party blocks with similar ideologies, compete in elections. Government is formed around one of these parties which imply that, considering the lack ideological differences, the delegation approach is employed. Consequently, more diffused cleavage structure with a PR system is conducive to coalition governments with different ideological views. This set-up favours commitment approach.

It is also possible that under certain conditions, a government is more likely to develop a decentralised budget process, named above as fiefdom approach. The stability of the electoral and party systems is important. If the political system is undergoing constant changes, and importantly, if these changes transform into instability also in government types it is unlikely that stable fiscal institutions can develop in such conditions. Further, if party system is so instable that the party discipline in the legislature is as a rule undermined, credible fiscal commitments – which are the essence of commitment approach – can not be enforced. The political parties within executive would not find it

¹⁶ This argument has a resemblance to the veto-player literature. “Veto-player” refers to actors that have to agree to the proposed change in policies or legislative status quo. Tsebelis, 1999 and 2002 argue that the ideological distances between the veto-players are crucial, not their absolute number.

¹⁷ Lijphart, 1999 also proposes four different criteria which he uses to judge whether closely allied parties should be considered as two parties or as one party. The first criterion has to do with electoral cooperation; separate political parties normally compete in elections. The second criterion revolves around the degree of cooperation between the parties in parliament, and more specifically, whether the two parties form a single parliamentary party group and caucus together. The third criterion asks, do the parties behave like separate parties in cabinet formations. In other words, are the two parties as a rule together in the government and opposition. Fourth, Lijphart notes that it makes sense to consider two parties as a single party only if their cooperation is long-standing. If alliances are ad-hoc, temporary and shifting, this criterion is not satisfied. (70-71)

meaningful to make commitments that are likely to be compromised by disobedient voting behaviour of the coalition partners' parliament members at the legislative stage. Thus, one would expect to find fiefdom-type institutions from countries with no stable patterns in their government types. Countries with undisciplined voting behaviour are unlikely to go for commitment approach.¹⁸

Based on this discussion, one can make the following predictions¹⁹:

- *Commitment approach*: Countries with multi-party majority governments (most likely to be found from countries that have proportional elements in their electoral systems and/or diffused cleavage structures, not likely to be found from countries with undisciplined voting behaviour.).
- *Delegation approach*: Countries with single-party majority governments (most likely to be found from countries that have majoritarian elements in their electoral systems and/or simple cleavage structure), or multi-party majority governments with scant ideological differences.
- *Fiefdom approach*: Countries with unstable party systems and no stable patterns in their government types.

¹⁸ Hallerberg, 2003 proposes one further condition under which a government is more likely to develop a decentralised budget process, namely the degree of uncertainty a government parties have concerning their re-election. If a political system has a low degree of party competition, in other words, if a same party is constantly in the government, there is little incentive for it to centralise the budget process. Idea behind this proposition is that a party which is very dominant does not have to worry about mismanagement of the economy, which would 'normally' be punished by the electorate. With low party competition this is less of a threat. It is worth noting that the degree of party competition and stability, or volatility, of a party system can be interlinked. If a party system has "very" low stability, in other words, if changes over successive elections in the balance of party support are substantial and new political formations commonly emerge, a country has high degree of party competition and probability that dominant parties will be developed is lower. The opposite is not necessarily true. Even if party system has stabilised, and has, say, three equally strong parties with stable electoral support, the degree of competition can nevertheless be high. Practically all of the CEECs have had a low party system stability, which implies that uncompetitive party systems are unlikely to be found from these countries. Therefore, this criterion is not considered here. Slovenia is a potential exception and its case is considered in the country specific discussion below. Finally, it is, of course, difficult to determine the "optimal" degree of party competition, or volatility. Very high instability of a party system can be detrimental to democratic consolidation, whereas some degree of variation in partisan support may be taken as evidence that the party system is responsive to changing preferences of voters. (Birch, 2001, 1-2). See also footnote 56 of this paper.

¹⁹ See Hallerberg, 2003 for a similar summary. There is also one further type of fiscal management which Hallerberg et al 2001 refer to as *hybrid*. The hybrid solution is most likely to be found from countries where minority governments are the norm, and this approach draws on features from both delegation and commitment. Within the government, finance minister has an important role in formulating their budget proposals but since the government can not pass the budget without gathering support from the opposition, ideally there should be an understanding, or even a contact, between the government and one or more opposition parties so as to ensure support needed to pass the budget and to prevent last minute bids by the opposition to extort further concessions from the government.

3 ELECTORAL AND PARTY SYSTEMS AND THE DEVELOPMENT OF FISCAL INSTITUTIONS IN THE CEECS

In this section, details of electoral systems and available evidence on cleavage structures and party volatility are presented. The latter part of the chapter considers in greater detail the country-specific considerations which then allow making predictions on which type of fiscal institutions can be expected to be found from the CEECs.

3.1 Electoral and party systems in the CEECs

Table 3.1 presents the details of electoral systems in the CEECs. As regards the election systems (i.e. PR versus plurality-majority systems), one can see that the vast majority of the CEECs rely on PR systems, even though more variation can be found from the details of these systems.²⁰ Only Hungary and Lithuania employ a mixed system which both incorporates some elements of majoritarian systems. The correlation between effective number of parties and effective threshold has a correct sign (-0.29).²¹ Bulgaria has the lowest district magnitude among one-tier systems, the lowest effective number of parties and consequently highest effective threshold. Romania has the second-largest threshold. In many cases the legal threshold is higher than mechanically calculated one thus determining the effective threshold, and also limiting proportionality. Finally, one also notes that changes in electoral systems in the CEECs have not been uncommon.²²

Therefore, based on the dominance of the PR systems – and their conduciveness to multi-party governments – one is tempted to conclude that commitment approach can be expected to be the norm in the fiscal institution of the CEECs.

But as mentioned above, also cleavage structures matter for the party formation. They also reveal something about the ideological polarisation between the government parties which, in turn, affects their willingness to delegate fiscal powers to a single actor within the government.

²⁰ This dominance of PR systems is a common feature throughout the world. According to Lijphart's, 1994 calculations, 52 out of 70 systems fall in to this category.

²¹ If one ignores the legal thresholds and uses only mechanically calculated effective thresholds, the correlation is increased, but only marginally to -0.31.

²² Benoit, 2002 and 2003 has examined the evolution of electoral laws in Eastern Europe using a model which attempts to describe how and why electoral institutions are shaped by political parties. His theory predicts that electoral laws will change when each party in the coalition expects to gain more seats under an alternative electoral institution, and when this coalition has sufficient power to implement such a reform.

Table: 3.1 Comparison of electoral systems in the CEECs

	Years of elections included	Election system	Assembly size	Number of districts	District magnitude, average	Effective number of parliamentary parties, average	Legal national threshold, %	Effective threshold, %
<i>Bulgaria</i>	-91, -94, -97, -01	PR, closed list	240	31	7.7	2.64	4	8.9
<i>Czech Republic</i>	-92, -96, -98	PR, open list (mv) ⁽¹⁾	200	8	25.0	4.22	5 (higher for coalitions)	5
<i>Czech Republic</i>	-02			14	14.3	3.67		5.0
<i>Estonia</i>	-92, -95, -99	PR, open list	101	11,3 ⁽²⁾	8.9	5.18	5	7.8
<i>Hungary</i>	-90, -94, -98, -02	mixed, 3-tier	386	176/20 /1	1/7.6/58	3.08	5	5
<i>Latvia</i>	-93, -95, -98, -02	PR, open list (mv)	100	5	20.0	5.79	5 (higher for coalitions)	5
<i>Lithuania</i>	-92, -96, -00	mixed, 2-tier (mv) ⁽³⁾	141	71/1	1/70	3.59	5 (higher for coalitions)	5
<i>Poland</i>	-91	PR, 2-tier	460	37/1	10.6/69	10.76	5 ⁽⁴⁾	5
<i>Poland</i>	-93, -97			52/1	7.5/69	3.43	5 (higher for coalitions)	7
<i>Poland</i>	-01	PR, open list		41	11.2	3.60	5 (higher for coalitions)	6.3
<i>Romania</i> ⁽⁵⁾	-90, -92, -96, -00	PR, closed list	355.8	41.8	8.5	3.67	5 (higher for coalitions)	8.3
<i>Slovakia</i>	-92, -94	PR, open list (mv)	150	4	37.5	3.80	5	5
<i>Slovakia</i>	-98, -02			1	150	4.58		
<i>Slovenia</i> ⁽⁶⁾	-92, -96, -00	PR, open list	90	8	11	5.65	4	6.3

Own calculations. PR=proportional representation-system, mv=multiple votes. For data sources and further explanations, see annex 1.

Cleavage structures, which reflect more abstract ideological construction of a country, are more difficult to classify and present in a numerical form than institutional features of electoral systems. Nevertheless, party systems' ideological positions have been mapped. Lijphart, 1999 characterises different dimensions of party systems of 36 countries, but none of those countries include the CEECs. Another way to present the ideological distances in a numerical form would be to rely on veto-player literature which treats the number of parties in a government as "veto players". More veto players a government

includes, more difficult it becomes to pass laws or to act in a 'flexible' manner. Tsebelis, 1999 and 2002 present a somewhat more subtle argument stating that the ideological distances between the veto players are crucial, not their absolute number. The latter also presents coding rules, which can be used to measure left-right division between parties. Again, his data does not include the CEECs.²³

Some attempts have been made also with the CEECs. Kitschelt, 1995 studies the early years of post communist party formation in Bulgaria, the Czech Republic, Hungary and Poland. He finds that even during these early years and despite of electoral volatility, a clear party structuring had been taking place in the Czech Republic, Hungary and Poland, and also in Bulgaria this process was underway. His study also suggests that the parties have started to group around three relevant cleavages: liberal camp that champions free markets, national and Christian camp that invokes religious values and is less concerned about the economic reforms and post-socialist camp that is most hesitant to accept market liberalisation.

Table 3.2 Comparison of social cleavage structures in the CEECs

	<i>BUL</i>	<i>CZ</i>	<i>EST</i>	<i>HUN</i>	<i>LAT</i>	<i>LIT</i>	<i>POL</i>	<i>ROM</i>	<i>SLK</i>	<i>SLN</i>
Historical										
Core population vs. ethno-linguistic minorities	+		+		+			+	+	
Religious vs. secular		(+)	+	+		+	+		+	+
Urban vs. rural	(+)		+	+	+		+	+		+
Workers vs. owners	(+)	+		+	(+)	+	+	+	+	+
Social democrats vs. communists	+	+		+	+	+	(+)	+		+
Contemporary										
National vs. cosmopolitan	+	+		+	+			+	+	+
Protectionist vs. free market	+	+		+	+	+		+	+	+
Generational				+						+
Transitional										
Apparatus vs. forums/fronts	+	+	+			+	+	+		+
No of cleavages	6	5.5	4	7	5.5	5	4.5	7	5	8

Source: Hellén, Berglund and Aarebrot, 1998. "+" marks a salient cleavage, "(+)" marks marginal salience relevant to the criteria. For further explanations, see annex 1

A more comprehensive treatment have been done by Hellén, Berglund and Aarebrot, 1998 who have formed, based on the contributions in their edited volume, patterns of post-communist cleavage types in all of the CEECs (see table 3.2). The authors have classified the cleavages into three different categories. Historical cleavages reflect of classification used already by Lipset and Rokkan, 1967 in their study on Western European parties, and it includes

²³ Hallerberg, 2003 has used this data in mapping the ideological distances of parties of EU-15.

cleavages stemming from long-running process of national and industrial revolution. Thus these divisions can originate from social conflicts already present in the inter-war period. Contemporary cleavages, in contrast, include cleavages that were not present during the inter-war period, but have been surfaced later. Finally, transitional cleavage tries to capture cleavages related to fall of communism.²⁴

Naturally, this division is done at a rather high level of abstraction. Also, one should note that cleavage types do not automatically translate into equal number of parties. The table nevertheless demonstrates that all of the countries have multi-dimensional cleavage space which, together with the dominance of PR systems, suggests diverse party systems. Country-specific text below will discuss the cleavage structures more carefully, but as a general observation one can detect a North (Baltic countries and Poland) and South (the rest) dichotomy, the former having a more simple cleavage structure.

Berglund, Hellén and Aarebrot, 1998b argue in the same volume that strong cleavages do exist in the CEECs, and those parties that have been enjoying stable electoral support, have often achieved it by exploiting these cleavages. Nevertheless, due to volatile electoral behaviour and still changing party structure, the CEECs have not yet established a stable link between the cleavage structure and the emerging party systems. Cleavage structures have not yet “frozen” either. Further, Hellén, et al. 1998 note that to a degree these weaknesses have been offset by constraining proportionality of their electoral systems, most notably via high thresholds which have mitigated volatility. All of the CEECs, they conclude, are on the road towards democratic consolidation. Romania, Bulgaria and Slovakia lag behind the rest but even they have achieved considerably more progress than, for example, majority of the CIS states. (375)

Considering the massive change that took place just over a decade ago, it is not a surprise to see that the party systems in the CEECs are still to some extent in turmoil. This can be a product of both rapid socio-economic changes which have resulted to changes in cleavages, as well as of changes in electoral systems in some of the CEECs. Indeed, several studies have established that party system volatility is higher in these countries compared, for example, to their Western-European counterparts.²⁵

Lewis, 2001b notes that despite of volatile politics, most of the CEECs have developed quite stable patterns of democratic government. In many countries two major parties or electoral unions have merged with one or more second-rank parties which have been able to gain enough parliamentary strength to present themselves as viable coalition partners for the formation of reasonable stable governments. Indeed, the extent to which party system volatility has

²⁴ For a more detailed explanation of these individual cleavages, see annex 1.

²⁵ Tóka, 1997, 1998, Olson, 1998, Lewis, 2001a. See also Birch, 2001 and Lewis, 2001b for a discussion about the party stability in the CEECs.

been transformed into volatility in government formations, which is our primary concern, is less obvious.²⁶

Table 3.3 sheds some light on this issue by presenting a comparison of government types in the CEECs. Also, the second-last column of the table presents a Herfindahl index which is often used to describe industry concentration. Here, the index is a sum of squared time-proportions a certain government type has been in office. It thus reveals to what extent a country has had only one government type: an index value of one means that a country in question has only had one government type whereas a low value means that a country has had number of different government types, and therefore the governments have in this sense been instable.

At a first glance, it would seem that only few countries have enjoyed stable government types. Only Hungary has had exclusively majority multi-party governments, and in Estonia, Latvia, Poland, Slovak Republic and Slovenia multi-party governments have clearly been dominant. Bulgaria, Czech Republic, Lithuania and Romania seem to present no stable patters.

However, breakdown of the post-communist period into earlier and later periods reveal some important patters. Partly these patters reflect the fact that the degree of political stability in these countries has increased as time has passed. One clear sign of this is that the portion of caretaker or non-party governments, which can be regarded as temporary solutions employed in times of political restlessness, are virtually non-existent in the latter part of 1990s. Also the index values in the second-last column have generally increased.

Politically instable countries during the latter period would seem to include Bulgaria, Estonia and Romania, possibly also Poland. Lithuania's case is interesting; during the first half of the period it had no multiparty governments at all, whereas the second half they became clearly dominant. Bulgaria has had large proportion of majority single party governments whereas Czech Republic has had almost exclusively single party governments but it is important to note that they have all been minority governments. Rest of the CEECs (Hungary, Latvia, Slovakia and Slovenia) have had almost entirely majority multi-party governments during the latter part of the 1990s.

Some words of caution are in order. In particular, the figures in the table 3.3 do not make a distinction between party blocks and more uniform parties. Similarly, the figures do not reveal what is the degree of cooperation between the government parties. These points are relevant especially in the case of

²⁶ Tsebelis, 2002 includes a review of literature dealing with causes for government (in)stability. Broadly speaking two approaches have emerged: the first focuses on the parliamentary features (political polarisation and fragmentation within and between the parties in the parliament) and the second on government features (in government). (210-214). Laver and Shepsle, 1996 is one example of the former approach while Tsebelis himself argues in favour of the latter. Further, as Tsebelis, 2002 also notes, government stability is not an unambiguous concept. As mentioned above, in this study the term "government stability" refers to stability in "government types", in other words, whether a country has had consistently multi-party or single party governments, and whether those governments have been minority or majority governments. The primary concern in this study is not what causes instable governments. Rather, the goal is to say something about what the government types in the CEECs have been and will likely be in the future.

Bulgaria and Hungary, and they are refined further in the country-specific discussion below.

Table 3.3 Comparison of government types in the CEECs

	<u>Multi-party</u> %	(of which) majority %	(of which) minority %	<u>Single party</u> %	(of which) majority %	(of which) minority %	<u>Care-taker/non-party</u> , %	Stability of government types	No of govts
<i>Bulgaria</i>									
91-02	<u>34.5</u>	100	0	<u>45.6</u>	80.8	19.2	<u>19.9</u>	0.30	7
91-97	<u>37.4</u>	100	0	<u>19.1</u>	0	100	<u>43.5</u>	0.37	5
97-02	<u>32.1</u>	100	-	<u>67.9</u>	100	0	<u>0</u>	0.56	2
<i>Czech Republic</i>									
92-02	<u>59.8</u>	66.8	33.2	<u>40.2</u>	0	100	<u>0</u>	0.52	5
92-98	<u>100</u>	64.0	36.0	<u>0</u>	-	-		0.54	3
98-02	<u>10.4</u>	100	0	<u>89.6</u>	0	100		0.81	2
<i>Estonia</i>									
92-02	<u>93.4</u>	77.9	22.1	<u>2.4</u>	0	100	<u>4.1</u>	0.59	8
92-95	<u>82.6</u>	100	0	<u>0</u>	-	-	<u>17.4</u>	0.71	2
95-02	<u>96.8</u>	72.0	28.0	<u>3.2</u>	0	100	<u>0</u>	0.58	6
<i>Hungary</i>									
90-02	<u>100</u>	100	0	<u>0</u>	-	-	<u>0</u>	1	5
90-98	<u>100</u>	100	0					1	3
98-02	<u>100</u>	100	0					1	2
<i>Latvia</i>									
93-02	<u>100</u>	75.0	25.0	<u>0</u>	-	-	<u>0</u>	0.63	10
93-98	<u>100</u>	55.5	44.5					0.51	6
98-02	<u>100</u>	100	0					1	4
<i>Lithuania</i>									
92-02	<u>60.4</u>	89.4	10.6	<u>36.6</u>	100	0	<u>3.0</u>	0.43	8
92-96	<u>0</u>	-	-	<u>93.2</u>	100	0	<u>6.8</u>	0.87	3
96-02	<u>99.4</u>	89.4	10.6	<u>0</u>	-	-	<u>0.6</u>	0.80	5
<i>Poland</i>									
91-02	<u>86.3</u>	90.7	9.3	<u>13.7</u>	0	100	<u>0</u>	0.66	8
91-97	<u>100</u>	83.4	16.6	<u>0</u>	0	0		0.72	5
97-02	<u>73.5</u>	100	0	<u>26.5</u>	0	100		0.61	3
<i>Romania</i>									
90-02	<u>60.9</u>	67.3	32.7	<u>39.1</u>	27.6	72.4	<u>0</u>	0.41	9
90-96	<u>55.4</u>	30.5	69.5	<u>44.6</u>	46.7	53.3		0.46	5
96-02	<u>66.8</u>	100	0	<u>33.2</u>	0	100		0.55	4
<i>Slovakia</i>									
92-02	<u>100</u>	89.4	10.6					0.80	6
92-98	<u>100</u>	82.0	18.0	<u>0</u>	-	-	<u>0</u>	0.70	4
98-02	<u>100</u>	100	0					1	2
<i>Slovenia</i>									
92-02	<u>100</u>	90.0	10.0	<u>0</u>	-	-	<u>0</u>	0.82	7
92-97	<u>100</u>	77.8	22.2					0.66	3
97-02	<u>100</u>	100	0					1	4

Own calculations. Government type refers to a distinction between multi-party and single party governments, and between minority and majority governments. For data sources and further explanations, see annex 1.

3.2 Political developments and predicted fiscal institutions in the CEECs

Indeed, the discussion above gives already some guidance on the underlying political fundamentals and their role in the choice of fiscal institutions. However, before drawing any final conclusions, a more detailed country-specific treatment is called for. This is done next.²⁷

3.2.1 Bulgaria

Post-communist Bulgaria saw the emergence of two main political blocks; A coalition of parties called Union of Democratic Forces, or SDS, was an advocate of radical reforms which was also motivated by the removal from power of the former communists, grouped around Bulgarian Communist Party, renamed as the Socialist Party. Strmiska, 2000 notes that the Bulgarian party system has been most often classified as a limited multipartism or as a "two and a half" party system.

Bulgaria is often mentioned as one of the countries where the party consolidation has lagged behind some of the other CEECs. The lack of political stability especially during the early years of post-communist period is mirrored in the frequency of caretaker governments during the first half of 1990s. The 1994 elections paved the way for the emergence of new political formations, reflected also in a steady, albeit small increase in the effective number of parliamentary parties, but the Socialists and the SDS remained by far the most powerful parties. Government formations were consequently also formed around one of these groups. After 1994 elections the Socialists formed a coalition with smaller parties. Before the 1997 elections, the parties that formed the SDS decided to merge into a single party, and together with People's Union – an alliance formed by the Democratic Party and the Agrarians – it ran under the umbrella of United Democratic Forces. This move from a coalition of parties to a single party did seem to stabilise its organisational structure and increased its effectiveness as a governing party. The alliance gained an absolute majority in the parliament and formed the government. The same heterogeneity applied also to Socialists where different factions have been competing against each other.²⁸ This was one of the major reasons why the party experienced partial disintegration after the defeat in 1997 elections. (Karasimeonov, 1998, 354)

²⁷ A thorough discussion on post-communist politics in the CEECs is beyond the scope of this paper. For such a review, see contributions in Berglund, Hellén and Aarebrot, 1998 and in Lewis, 2001a.

²⁸ Strmiska, 2000 calls SDS and Socialists as "ideologically and programmatically underdeveloped and incoherent formations with a number of rather negative features from the point of view of establishing and developing a pluralist democratic system" (3). Kitschelt, 1995 states that "within a matter of less than five years, Bulgarian politics has

In addition to this internal disaccord within party blocks, another typical feature in Bulgarian politics has been the attitudes towards communist past which has been a persistence cleavage. Parties under SDS coalition, notes Karasimeonov, 1998, were united by very one-dimensional ideology which stemmed from motivation to remove the former communists from power. Karasimeonov, 1996 notes further that especially during the first part of the 1990s the distrust between the ex-communists (the Socialists) and anti-communists (SDS) camps was so great that this “warlike” relationship prevented any meaningful dialogue between the two. As neither had a clear majority in the parliament, this strong polarisation hindered greatly political stability. (50)

The 2001 elections shook up the bi-polar nature of the Bulgarian party system as the National Movement Simeon II, a party formed just two months before the elections around its central figure former king Simeon II, took a landslide victory leaving the SDS and the Socialists in opposition. The National Movement Simeon II formed a government together with Movement for Rights and Freedom. National Movement Simeon II is however the dominant party in the government with 11 ministers, while Movement for Rights and Freedom holds two posts. One minister originates from the Socialists. Also National Movement Simeon II has suffered from internal disputes and several parliament members have defected to other parties.

While the party system formation has not matured, Bulgaria has had a very stable electoral system during the post-communist period. It employs a PR system, but it is a country with most majoritarian features among the CEECs if one considers district magnitude, effective number of parties and effective threshold. Bulgaria’s politics have been dominated throughout the 1990s by small number of relevant parties or party alliances. According to the table 3.3, it does seem that Bulgarian government types have not yet established clear patterns.

It is also important to note that all of the governments that in table 3.3 have been coded as “single-party governments” have actually been formed by loose and internally incoherent electoral coalitions, not uniform parties. Olson, 1998 notes that continuation of broad fronts in Bulgaria has separated it from the other countries of Central Europe.²⁹ Indeed, electoral alliances have been a dominant feature of Bulgarian politics. Strmiska, 2000 argues that the extensive practice of electoral alliance and political bloc formation has been a natural obstacle to the identification of the actual number of independently operating relevant parties and alliances with a clearly defined identity, legitimacy and mobilisation sources. (1)

Based on this discussion it seems that due to the political volatility – in other words frequent shifts between minority, non-party and majority multi-party governments – Bulgaria is a candidate for a fiefdom approach. After non-

manoeuvred itself into a stalemate situation in which no single party is characterised by an internally agreed upon program and operational strategy to realise that program” (79).

²⁹ According to Olson, 1998, the same applies to Romania.

party acting government in 1997, Bulgaria has been governed by governments formed by electoral coalitions or multi-party governments. It remains to be seen if the majoritarian features in its electoral system will contribute to convergence toward two-party system in the future and if the parties will become more united. Continuation of this trend would suggest delegation approach for Bulgaria in the future.

3.2.2 The Czech Republic

One of the notable features of the post-communistic politics in the Czech Republic is the recurrence of minority governments. The country became independent in 1993, and the composition of its first government was determined based on elections held in June 1992. This multi-party government had a majority in the parliament and it served the full election term. But minority governments became the norm ever since. Nomination of a minority multi-party government after the 1996 elections was preceded by negotiations between the Civil Democratic Party, or the ODS, a ruling party in the government and the opposition party, the Social Democrats, or the CSSD. Brokl and Mansfeldová, 1997 note that negotiations on the government programme called for concessions on the part of the coalition partners as well as the CSSD. (346)

After the 1998 pre-term elections, which resulted from growing economic problems, tension among the coalition and finally from a political scandal about party finances of the ODS, the Czech Republic got its first single-party government when the CSSD won the elections. Again, this was a minority government and thus the CSSD was forced to strike an "Opposition Agreement" with the ODS.³⁰ Benoit, 2002 describes the agreement as essentially a cartel arrangement imposing various mutual conditions on these two parties. The ODS would tolerate a CSSD minority government in exchange for not supporting votes of no confidence, and was promised chairmanship of both houses of parliament and leadership of essential parliamentary commissions. (31). This contract was supplemented in 2000 with additional elements.³¹

A discontent with the proportional electoral system began to emerge in the late 1990s, and especially among the largest parties, the CSSD and the ODS, there was a clear strive for a more majoritarian system. This was also one of the elements in their opposition contract. The discussion of the proposal for a new electoral law, which included an increase of electoral district from 8 to 35,

³⁰ Benoit, 2002 notes that "the proportional Czech electoral system had once again resulted in a minority government that lacked coalition potential [...]" (31).

³¹ This "Toleration Act" included following issues: State budget for the year 2000 and the budget outlook, basic parameters of changes in the electoral system, preparation for the EU entry, determination of relevant terms and conditions for tolerating minority cabinet, and communication of the clubs of deputies and senators for the two parties. See Mansfeldová and Brokl, 2001, 278-279.

stressed the formation of large parties and a functional cabinet.³² The law passed both chambers but President Václav Havel refused to sign it citing the constitution which stipulates that elections are to take place under a system of proportional representation. Amid continued pressure from the parliament, President was forced to appeal to the Constitutional Court on the issue. Finally, the electoral law was reformed for 2002 elections by increasing the electoral districts to 14. As the assembly size remained unchanged, the average district magnitude was, by definition, reduced, and thus system became more majoritarian, but not as much as in the original proposal.

The Czech Republic has seen a consistent decrease in the number of parliamentary parties during its independence. In 1992 elections, the number of parliamentary parties soared to 9 while the effective number of parliamentary parties was 4.8. In 1996 elections no new parties were able to gain seats while few of the old ones were not able to re-new their representation. In the June 1998 elections only five parties exceeded the 5% threshold and gained representation in the parliament and in 2002 elections, effective number of parliamentary parties was reduced further.

On of the reasons cited for this development has been the legal threshold. Brokl and Mansfeldová, 1997 point out that ever since the 1992 elections the legal threshold began to have a psychological effect, and voters were reluctant to cast votes for minor parties who were perceived as having little chances for getting elected. The same observation is made by Mansfeldová, 1998.³³

Recent election reform could add momentum for this development. One of the reasons given for the reform was encourage two-party system and increase majority governments. The 2002 elections are the only elections held under the new system, and as a result, a two-party government was formed with a narrowest majority in the assembly.³⁴ It is of course too early to observe how the political system will develop in the future. Looking back, the Czech Republic has had the largest portion of minority governments among the CEECs and political deals between government and opposition parties have thus been common. This suggests that one could expect to find hybrid elements from the Czech Republic's fiscal institutions.³⁵ On the other hand the shifts from one-party to coalition governments have continued right up until the end of the

³² Benoit, 2002 notes that the ODS and CSSD had enough seat in the parliament to change the electoral law and even the constitution towards a more restrictive electoral law which would encourage a two-party system and make majority governments more likely. Both parties performed explicit calculations estimating that such rules would enhance their seat shares under a variety of scenarios, even though they would be political opponents. (31). See also Benoit 2003.

³³ For smaller parties this has been a cause for concern. Office for Democratic Institutions and Human Rights observed in its final report for 1998 elections: "a number of complaints were made [...] by some parties regarding [...] the 5% national threshold, claiming [it is] too high and limit the chances for smaller parties to compete in the election and gain representation in Parliament. [...] During discussions with a range of Czech politicians, it was pointed out that the 5% threshold on a national level is designed to produce a parliament made up of a limited number of nationally-based parties rather than a parliament consisting of a larger number of smaller parties." (4-5)

³⁴ It has 101 seats in 200 seat parliament.

³⁵ See footnote 19 of this paper.

period which suggests fiefdom approach. Looking ahead, if the two-party system takes hold along with the reform of Czech electoral system which limited proportionality, prediction is – similarly to Bulgaria – that Czech Republic could develop features from delegation approach. Otherwise it will be a candidate for commitment.

3.2.3 Estonia

Estonia has had almost exclusively multi-party governments. It has also had fairly stable electoral system. Number of parties rose very quickly after Estonia regained its independence in 1991. As was the case with the Czech Republic, also Estonia implemented a five percent threshold which caused numerous parties to reorganise into electoral alliances. Lagerspetz and Vogt, 1998 note that while many of these alliances later became parties, the party system remained long relatively fragmented. This fragmentation has somewhat diminished over the course of the 1990s. In 1999 elections electoral coalitions were forbidden which gave additional momentum for this consolidation as party coalitions were forced to merge into parties in order to exceed the five percent threshold.

The fragmentation of the party system does not, in the case of Estonia, seem to mean ideological fragmentation. While clear ideological differences between different movements existed in the beginning of transition process, the ideological differences later diminished. “Ideological vagueness” is quoted by Lagerspetz and Vogt, 1998 as one of the fundamental problems in Estonian politics.³⁶ (68-72). They present also evidence according to which voters have traditionally made their electoral choices on individual, rather than on party grounds. (58-59).

Estonia has had eight governments during the period examined in table 3.2. These pre-term changes did not however result from disputes over political issues as such, but political scandals involving charges of mishandlings in political and personal affairs by respective prime ministers. Lagerspetz and Vogt, 1998 identify this as one reason why voter activity has traditionally been low in Estonia. Nevertheless, excluding a minority government which was formed after series of political scandals which forced Coalition Party’s Prime-Minister Tiit Vähi to step down, proportional election system has consistently produced majority multi-party governments.³⁷ Despite of the suggestion that ideological differences have been scarce also regarding economic policy issues, fairly consistent coalition governments indicates commitment approach.

³⁶ According to Lagerspetz and Vogt, 1998, this consensus is extended also to economic issues. They note that there has been almost no opposition at all to the cornerstones of the economic policies, including economic integration towards west and the need for balanced budgets. (75)

³⁷ Majority multiparty government was formed also after the 2003 parliamentary elections.

3.2.4 Hungary

Hungary's electoral system has been described as one of the most complicated in the world but it has served the country well since it has been one of the most stable ones among the CEECs. As Tóka, 1998 notes, political stability has been a distinct feature of Hungarian politics.³⁸ Nevertheless, the complexity of the system makes it difficult to classify. Consequently, the different measures included table 3.1 for Romania should be interpreted with caution.³⁹

The post-communist party-scene was dominated by the Hungarian Socialist Party, or the MSZP, a successor of the Hungarian Socialist Workers' Party, and several "new" parties. Of all these new groups, the Democratic Forum, or the MDF, was the most efficient in building up a nation-wide party organisation, and it received over 40 percent of the seats in the parliament in the 1990 elections, and a three-party MDF-led majority government was formed.

The Democratic Forum as well the coalition government suffered from internal disaccord. Meanwhile, the opposition was preparing for the 1994 elections, and in early 1993 the Free Democrats, or the SZDSZ, and the Young Democrats, or the Fidesz, signed an agreement with the attempt to facilitate their cooperation and to evaluate based on mutual understanding the ruling coalition and the Socialists. This agreement had little effect as the Fidesz, after suffering from some internal disorder, re-evaluated its political strategy and turned away from the leftist side towards national conservatism and Democratic Forum as potential partner. (Ilonszki and Kurtán, 1994, 324)

As a result, the popularity of the Fidesz decreased dramatically, and the 1994 elections brought a landslide victory for the Socialists. The results reflect the majoritarian bias in the Hungarian electoral system; the Socialists received absolute majority in the parliament with only 33 percent of the party list votes. Consequently it could have formed a single party majority government but opinion polls indicated that the public was largely against an exclusive Socialist government and favoured coalition. The Socialists formed a coalition with the Free Democrats. The principles of coordination and policy goals of the coalition partners were included in a 144-page document, first of its kind. (Ilonszki and Kurtán, 1995, 364)

The political agenda after the elections was dominated, among other things, by unsatisfactory economic performance. This caused tensions within the government as well as between the government and opposition. An

³⁸ This stability has not however been all-inclusive as internal government reshuffles have not been uncommon. For instance in 1995, six ministers out of total 15 left the cabinet. Three of these resignations were related to the economic package introduced by Minister of Finance. In 1996, five ministers resigned, or were replaced. (Ilonszki and Kurtán, 1996 and 1997) In the subsequent years the reshuffles did not cease altogether but they were less frequent.

³⁹ Hungary's election system combines three essentially distinct systems to elect parliament: voting for single candidates from single member districts, list voting for parties in larger territorial districts using proportional rules to award seats from party lists, and proportionally allocated compensation seats from national compensation lists. See Benoit, 2001a for the analysis of the Hungarian system.

example of this was an economic package announced the Minister of Finance (member of the Socialist party) in March 1995. The content of the package was not discussed in advance in the cabinet and while the package passed the parliament, the two government parties – and especially the Socialists – were divided on major elements of the package. Working relations between the coalition partners stabilised later that year. Ilonszki and Kurtán, 1996 note that the Free Democrats agreed with the new economic programme but “as a minor, and numerically an ‘unnecessary’ partner in the coalition they could not have much influence in other policy areas”. (363)

Also opposition was prone to internal crises. However, the Fidesz, renamed as the Fidesz-MPP (Alliance of Young Democrats-Hungarian Civic Party), remained united and was seeking to challenge the government in the 1998 elections. The Fidesz-MPP succeeded in this and gained 148 seats compared to 134 seats for the Socialists. Consequently they were not able to establish a majority government without forming a coalition with smaller parties. Democratic Forum was considered to be a natural partner for the Fidesz-MPP. Even these two parties did not have enough seats to form a majority themselves as thus Independent Smallholders Party, or the FKGP, was taken on board after they gave up its original radicalism to become more acceptable for government posts.⁴⁰ (Ilonszki and Kurtán, 1997, 1998 and 1999)

Ilonszki and Kurtán, 1999 note that the 1998 elections held the features of consolidation, and the party system became less fragmented. Centre-left (the Socialists) and centre-right (the Fidesz-MPP) dominated. (413) These elections were also significant because in contrast to previous elections, parties coordinated their electoral strategies. Benoit, 2001 notes that this was the case especially with Fidesz-MPP and Democratic Forum who had joint candidates in 78 electoral districts. Further, Fidesz-MPP and Democratic Forum, and the Socialists and Free Democrats in a few cases, stroked agreements not to compete against one another in several single member districts in the first round and urged voters of non-represented parties to support the allied party’s candidate instead. (7)

This consolidation continued since. Benoit, 2001b argues that despite the expectation that the PR component of Hungary’s mixed system would be able to sustain multipartism, its party system has been steadily converging towards two parties. (15-16). Indeed, effective number of parties has been on a decreasing path⁴¹, and after the 2002 elections only three parties entered the parliament, the Socialists and the Fidesz-MPP being again the dominant parties. Just like after the 1994 elections, the Socialists – having obtained over 46 percent of the seats – formed a coalition with Free Democrats.

In the light of the table 3.1 Hungary is not the most likely candidate for having multi-party governments while according to the table 3.3, Hungary has only had multi-party coalition governments, which all have served full election terms. Nevertheless, majoritarian influence in the Hungarian electoral system

⁴⁰ The Fidesz-MPP had 12 portfolios, while the FKGP had 4 and the MDF one.

⁴¹ After the 1990 elections 3.8, and after the 2002 elections 2.2.

has manifested itself in the fact that all of the governments have included only two or three parties (“large party” supplemented with few portfolios for “minor parties”).

It is also useful to note that the governments have consistently included the same cluster of parties reflecting at least partially left-right cleavage. The Socialists formed a “leftist” coalition with Free Democrats after the 1994 and 2002 elections, while Democratic Forum and the FKGP have been in the same government after 1990 and 1998 elections. By the 1998 elections, Fidesz-MPP had already overtaken a role as the main opposition party to the Socialists from Democratic Forum.

It is also important to note that these blocks have pursued electoral cooperation. As mentioned above, in the 1998 elections the Fidesz-MPP and Democratic Forum who ended up being coalition partners after the elections and the Socialists and Free Democrats who ended up in the opposition coordinated their electoral strategies. After 2002 elections, bipolar nature of the Hungarian system was crystallised even further with the Socialists and Free Democrats forming the government and the Fidesz-MPP being the sole opposition party. This bipolarity has been a consistent theme for Hungarian politics throughout the 1990s, and it suggests that – unlike in the rest of the CEECs – fiscal institutions in Hungary can be expected to include features from a delegation approach. Kitschelt, 1995, and Tóka, 1998 also note that the party polarisation has been more substantial on non-economic than on economic issues. This made it easier to enter to government alliances and it also could have facilitated delegation of fiscal powers to a single player within the government.

3.2.5 Latvia

As is the case with many other CEECs, also in Latvia the legal threshold of five percent has encouraged parties to form electoral alliances. In Latvia’s case these coalitions have often been unstable, especially during the first half of the 1990s. Smith-Sivertsen, 1998 note that this instability has contributed to the fact that political parties in Latvia have traditionally not had stable basis for electoral support. Consequently, fluid political system has encouraged parties to be formed around charismatic leaders.⁴²

Davies and Ozolins, 2001 note that shifting, collapsing and re-structuring of electoral alliances in Latvian politics make it difficult to assess how the political viewpoints, or popularity, of different parties have developed overtime. Indeed, every election has brought major changes to the parliament composition. Based on the evidence of the 1998 elections, Davies and Ozolins,

⁴² Electoral system also encourages for this; Latvian voters can indicate their approval for a preferred candidate, or disapproval for a disliked candidate. Since party hopefuls can be named as candidates in more than one district, leading party figures in particular tend to be listed in all districts in order to capitalise their name recognition. See Davies and Ozolins, 2001 and table 3.1 of this paper.

2001 see some signs that the Latvian political system is stabilising. However, the 2002 elections witnessed again the emergence of new party coalitions while some of the old ones were dismantled. Latvia has also had several government reshuffles. Many of these changes have been related to mergers of different parties, or resignations of individual parties.

This volatility makes it a challenging task to evaluate the link between the cleavage structures and party formation. Smith-Sivertsen, 1998 find ethnic, rural/urban and historic, in particular pro/contra-independence, cleavages to be most apparent. Davies and Ozolins, 2001 argue that in broad terms the Latvian parties can be arranged also along the left-right spectrum. "Rightist" parties include For Fatherland and Freedom, the People's Party and the Alliance 'Latvia's Way', while "leftist" side include the Social Democratic Alliance and the National Harmony Party. Ahead of the 2002 elections, the two latter parties formed a coalition For Human Rights in United Latvia which makes use of ethnic cleavage but is much divided over economic issues.

Smith-Sivertsen, 1998 argues that in the 1993 and 1995 elections the socioeconomic issues became more dominant while ethnic issues were downplayed. Nevertheless, strong presence of other salient cleavages has affected the government formation and governments have not necessary been formed around left-right cleavage. In fact, Smith-Sivertsen, 1998 codes each post-communist government as "centre" in left-right spectrum. Also after the 1998 election, the government included For Fatherland and Freedom ("right"), the Alliance Latvia's Way ("centre-right") and the Social Democratic Alliance ("centre-left"). After the 2002 elections, leftist For Human Rights in United Latvia was left to opposition as the centre-right parties formed the coalition government. Latvia's Way failed to exceed the 5 per cent hurdle and it disappeared from the party scene while the New Era, a new centrist party led by a former Central Bank Governor, gained a leading role in the new government.

Latvia has one of the largest district magnitudes and effective number of parties in the sample which would suggest frequent multi-party governments. Indeed, excluding the very beginning of the 1990s, and despite of volatile party system, the government types have been stable, and excluding the two fairly brief minority coalitions during the early 1990s, Latvia has only had majority multi-party governments. This implies a commitment approach.

3.2.6 Lithuania

In contrast to Latvia, its southern neighbour Lithuania has enjoyed much higher degree of party system stability. Lithuania is the only country in the sample alongside with Hungary that combines elements from proportional and majoritarian system. Žeruolis, 1998 notes that this majoritarian bias has served an effective obstacle for new political entrepreneurs and has been conducive to the maintenance of a two-block system. (123)

The dominance of the two main parties has not been absolute. Since 1992 elections there are five main parties which have had representatives regularly in the parliament. Out of these, the Homeland Union, or the TS(LK), and the ex-communist Lithuanian Democratic Labour Party, of the LDDP, have traditionally been the leading parties.

Similarly to Bulgaria and Hungary, the Lithuanian governments have, especially during the latter part of the period, included “a leading party” supplemented with few portfolios for “minor parties”. Between the 1992 and 1996 elections the LDDP-led single-party government was in power, while the latter part of the decade, the TS(LK)-led government was complemented with the Christian Democrats and the Centre Union. Both of these governments had several prime-ministers. Indeed, a distinctive feature in Lithuanian politics has also been constant changes in the government, involving mostly only prime-ministers. Usually the party composition and even composition of ministers have remained fairly constant.

The 2000 elections changed this bi-polarity by introducing new players – the Liberal Union and the New Union – into the parliament. In contrast to previous governments, the resulting multi-party government included two fairly equal parties instead of having one clearly dominant party. Liberal Union and New Union formed a minority coalition government which ruled less than a year and was dissolved after New Union broke coalition ties with the liberals and signed a coalition agreement with the Social Democratic coalition.

The majoritarian bias in the Lithuanian electoral system and fairly stable party system has interestingly not produced stable governments. During 1992-2002 (i.e. three election terms) Lithuania has had eight governments.⁴³ Bi-polarity was evident especially during the first part of the decade when Lithuania only had majority single-party governments. In principle this would suggest delegation for this period. The government formed after 1996 included one major party, TS(LK), with 10 portfolios and two minor parties with 5 portfolios combined. Thus, despite of the bipolarity this government already could be classified as coalition government. After 2000 elections, the stream of multiparty majority governments continued, with the exception of one brief minority government. Thus Lithuania should be tilted towards commitment approach, especially towards the end of the period.

3.2.7 Poland

Poland has had a very unstable electoral system. Benoit and Hayden, 2004 also note that the Polish party system is the most complicated and the most dynamic in Eastern Europe. (11).

⁴³ This figure excludes three acting governments which served only from few days to two weeks at most. Two of these acting governments were in office in 1999, and one in 2001.

In the 1991 elections close to 30 parties gained parliamentary seats.⁴⁴ This followed from very proportional electoral systems which did not include any threshold for the district level.⁴⁵ The cabinet formation was considerably hampered by the large fragmentation in the parliament as there simply was no self evident base for a majority. Thus after the 1991 elections there was a widespread view especially among the largest parties that the highly proportional electoral rules were impeding the consolidation of the party system and making the formation of stable coalitions impossible. (Grzybowski, 1998, 167, Benoit and Hayden, 2004, 21)

This was one of the main motivations for election reform which reduced the proportionality for the 1993 elections by introducing a 5 percent nationwide threshold for districts and 7 percent threshold for national list.⁴⁶ Number of electoral districts was also increased. Indeed, after the 1993 effective number of parties was reduced to 3.91. The subsequent elections in 1997 reduced it even further to 2.95.

But equilibrium was yet to be achieved. Parties that had been losing seats due to less proportional electoral law wanted to increase proportionality again. Several proposals from different parties were tabled and eventually in 2001 the law was changed.⁴⁷ The changes included increasing the district magnitudes, changing the d'Hondt formula to Modified Saint-Lague and abolishing the national list. (Benoit and Hayden, 2004, 26-29)

Benoit and Hayden, 2004 conclude their analysis on the evolution of Polish electoral system by arguing that because of the rapidly changing support for the parties, coupled with the simple majority rule required to amend the electoral law, the equilibrium condition where the electoral institutions stabilize has yet to be reached in Poland, and parties are likely to continue to shape the electoral law. (32)

It is perhaps not surprising that these changes have left its mark also to government types which have not developed any stable patters during the post-communist period. During the first post-communist years, Poland had fairly unstable minority coalition governments but after the 1993 elections Democratic Left Alliance, or SLD, and Polish Peasant Party, or PSL, both post-communist parties, formed a PSL-led two party majority coalition.⁴⁸ Jasiewicz, 1994 argues that the new electoral law was the major reason for their success. Indeed, Grzybowski, 1998 notes that PSL obtained twice as many seats under the new law compared to the old one. (172)

The coalition was not particularly harmonious, and it suffered from many disputes. Some ministers, including the Minister of Finance (and Deputy Prime Minister) from SLD resigned in 1994 after disagreements with the Prime

⁴⁴ This is also reflected in the very high effective number of parties (10.76).

⁴⁵ It also included a very proportional Hare-Niemayer method as a formula for converting votes into seats at a district level. On the national list, the seats were allocated according to modified Saint-Lague formula.

⁴⁶ D'Hondt allocation formula was also applied.

⁴⁷ There was an attempt to introduce less proportional electoral law already in 1997, but it narrowly failed the parliament vote (182 to 181).

⁴⁸ The government was supported also by the Union of Labour until June 1994.

Minister. Nevertheless, 1994 was the first year after 1987 without change in government. This stability was short-lived as in 1995 the disagreements between the Prime Minister and the President surfaced. The government received a vote of no confidence and SLD-led majority coalition was formed. (Jasiewicz, 1995, 1996)

After the 1997 elections, Electoral Action Solidarity, or the AWS, and Freedom Union, or the UW formed a coalition government. Jasiewicz and Jasiewicz-Betkiewicz, 2001 note that the coalition was born out of necessity, as it was the only viable majority coalition in the parliament. These two parties both had their roots in Solidarity movement but they never really trusted each other.⁴⁹

This distrust manifested itself especially in issues of economic policy where the agreement was difficult to achieve throughout the lifetime of the coalition. Even when the party leaders struck a deal and imposed formal party discipline, it was never certain that it would be accepted by all members of the AWS. Jasiewicz and Jasiewicz-Betkiewicz, 2001 note that in particular a group of 21 parliament members, commonly referred to as “the Blackjack”, became a de facto opposition to the government economic policies. In January 2001 they even submitted a formal motion for a vote of no confidence in the Minister of Treasury. The motion failed by just two votes, but another no confidence motion was submitted in August. This time the Prime Minister had to dismiss the Minister. (386-387)

Finally the coalition broke up when the Freedom Union decided to leave the government, but continued to support the government in important votes. The AWS continued as a minority government⁵⁰ until the next elections in 2001 after which a majority multi-party government was formed between SLD and PSL.⁵¹

Poland has had instable government formations. During the beginning of the 1990s it had minority governments followed by number of majority multi-party governments, a period of minority government, and again multiparty government which too then collapsed. There is also some strong evidence that especially after 1997 elections the party discipline was undermined particularly on economic issues.⁵² Despite having a fairly long period of multiparty

⁴⁹ The AWS was a loose block of several parties which, according to Jasiewicz and Jasiewicz-Betkiewicz, 2001 occupied a firm place on the right of the political spectrum as far as cultural (religious values) and ideological (condemnation of Communism) cleavages are concerned. On issues of economic and social policy, however, it has often opted for populist and interventionist solutions, while in principle supporting market reforms. The Freedom Union was less concerned with other ideological issues, but it has been the most consistent proponent of free market economy on the Polish political scene. (387)

⁵⁰ As mentioned already, the table 3.3 does not make a distinction between party blocks and more uniform parties, and thus the AWS has been coded as a single-party. Due to its fairly short and volatile existence, the AWS should probably not be considered as a single party according to Lijphart’s criteria mentioned in footnote 17 of this paper.

⁵¹ This government also collapsed following internal disputes in the beginning of 2003. See “Poland’s ruling coalition collapses”, Financial Times, March 2, 2003.

⁵² Yläoutinen, 2004 finds more evidence on the undisciplined voting behaviour. Further, a certain degree of instability was evident also earlier. A member of Bureau of Research from Polish Sejm writes: “[During the early years of 1990s] the presence of a multitude of

government at the time, this distrust makes it difficult to agree on binding and credible common goals which are the essence of the commitment approach. Commitment approach would be the predicted institutional solution for Poland but because of this instability, Poland is a candidate for fiefdom approach.

3.2.8 Romania

As can be seen from the table 3.1, Romania has the second-largest effective threshold in the sample. Romania has also gradually limited the proportionality of its electoral system by implementing reforms that have reduced the district magnitude and applying legal threshold ahead of 1992 elections. Legal threshold was increased further ahead of 1996 elections. These changes are also reflected in a steady decrease in effective number of parliamentary parties.⁵³

Crowther, 1998 argues that excluding Albania, Romania was probably least prepared for democratic rule among the Eastern European countries. The hard-line Ceaușescu regime systematically fostered political alienation and fractured society along class and ethnic lines. (297) The fall of the dictatorship in 1989 left the political field wide open.

The provisional power was quickly assumed by National Salvation Front, which changed its name in 1993 to Party of Romanian Social Democracy, or the PDSR, after uniting with three smaller parties, and it consequently dominated both the 1990 and 1996 elections. Crowther, 1998 calls the first election campaign an unequal contest at best, pitting a cohesive successor communist party with near monopolistic access to state resources against the fragmented opposition. The PDSR also formed the backbone for the governments formed after these elections. Minority governments were the norm during the first half of the 1990s.

The 1996 elections marked a change in the Romanian political scene as the PDSR was left second after the Democratic Convention of Romania, or the SDR, an alliance of rightist parties claiming victory. The PDSR's popularity was eroded by the political and economic stagnation. A SDR-led majority coalition was formed but the coalition was prone to internal disputes and it underwent several changes.

The 2000 elections were won again by the PDSR and ultra-nationalist Greater Romania Party experienced a surprise-surge in its support and came second. The PDSR, renamed as Social Democratic Party, or the PSD, formed a single-party minority government which was supported by centrist parties, especially the Hungarian Democratic Union. At least partly their motivation not

political parties and a wide range of diversity of interests in the Polish Sejm [...] manifested itself in its entirety during the work on the central budget. Deputies frequently identified their own individual or group interests with the public interest. Inexperienced experts of the Bureau [of Research] were under constant fire from "dissatisfied" deputies." (Staskiewicz, 2002, 2).

⁵³ This decrease started after 1992, when the effective number of parties was 4.75. After 2000 elections it was 3.42.

to seek to overturn the minority government has to do with their dislike towards Greater Romania Party and its anti-Hungarian and anti-Semitic politics.

Table 3.2 suggests that Romania was not developed stable government formations, a proposition supported by the discussion above. Romanian politics has been characterised by regular changes from single-party to multi-party, and from minority to majority governments. Thus, fiefdom approach is the expectation for Romania. Proportional elements in its electoral system combined with diffused cleavage structure suggest commitment approach for Romania in the future when political conditions are stabilised.

3.2.9 Slovakia

The most powerful of Slovak post-communist parties has been the Movement of Democratic Slovakia, or the HZDS, a leftist descendant of a broad based citizens' movement called the Public Against Violence. Remarkably, the HZDS has been the biggest parliamentary party after every election since 1992 but this position has not however guaranteed it a leading role – or even a post – in every government. After the birth of independent Slovakia, a HZDS-led minority two-party government was formed, but several parliament members left the HZDS in the beginning of 1994, as a row over the market reforms, privatisation in particular, culminated. A broad based 'right-center-left'-minority coalition led by Democratic Union was formed ahead of the 1994 preterm elections. (Mansfeldová, 1998, 212-213, Malova, 1995, 468)

The elections restored the HZDS's position as a leading government party. First, there was an attempt to form a broad based HZDS-led coalition with Christian Democratic Movement and Party of Democratic Left but both parties withdraw from the negotiations. Finally, the HZDS (12 cabinet posts) was able to form a majority coalition with the nationalist or rightist Slovak National Party, or the SNS (2 posts) and populist left-oriented Association of Workers in Slovakia, or the ZRS (4 posts). Out of these partners, the HZDS and the SNS had most common ground especially regarding the nationalist aspects of their programmes but also they were divided by some other areas, especially foreign policy. The ZRS's agreement to participate to the coalition was considered as a somewhat of a surprise, and their demands concerning the distribution of the cabinet posts delayed the government's inauguration. (Mansfeldová, 1998, 213, Malova, 1995, 470, Malova, 1996, 455)

Malova, 1996 points out that 1995 was the first year since the collapse of communist rule in 1989 without a change in government. Ruling parties had been internally incoherent and party discipline generally weak. Now political situation however stabilised as during the year not even one change of minister occurred and voting behaviour was disciplined. (454) The voting discipline was weakened during the course of 1997 when several bills failed to pass the parliamentary vote. The government's privatisation policy was particularly

controversial topic. For example, the National Property Fund, controlled by members of the board where the HZDS had a majority was accused of selling many profitable companies to ruling parties' supporters. (Malova, 1997, 484)

Meanwhile, the opposition reached agreement on pre-electoral co-operation. As a result the Slovak Democratic Coalition, or the SDK, was born which was an alliance comprising the centre-right Christian Democratic Movement and the Democratic Party, the centrist Democratic Union, and two minor centre-left parties, the Social Democratic Party of Slovakia and the Slovak Green Party. While the alliance was ideologically diverse, its main motivation was to challenge the incumbent regime. The HZDS in particular was accused of unconstitutional legislation and other violations of the rule of law. (Malova and Učeň, 1998, 521)

Slovakia's electoral law was changed after the 1994 elections as the number of districts was reduced from four to one; territory of the Slovak Republic forms now one election district. This was seen as an attempt by the HZDS to capitalise the nationwide recognition enjoyed by its leader and Prime Minister Mečiar. (Malova and Učeň, 1999, 501-502) Despite of these efforts the 1998 elections marked an end to the reign of the HZDS. It remained marginally the largest party gaining 43 seats against 42 seats of the SDK. The SDK led majority coalition government was formed. The SDK was joined by Party of Democratic Left, or the SDL, Party of Civic Understanding, or the SOP and Party of Hungarian Coalition, or the SMK. The HZDS was left to opposition. Its controversial politics left it in political isolation with the SNS as the only potential coalition partner.

The SDK did not prove to be sustainable alliance. Several factions departed from it in 2000 and as a result it shrank from its original 42 to 29. The government maintained however the majority in the parliament as these factions continued to support the government. Učeň, 2001 notes that there were many attempts by individual parties to promote their position at the expense of their coalition partners. Practically all coalition members were connected to various economic pressure groups. Especially the SDL was opposing the SDK even joining the HZDS a vote of no confidence in April 2000. The rest of the coalition partners rejected the SDL's position. (404-408)

The SDK finally disintegrated in 2000 as the problems culminated. The party lacked an efficient internal decision-making mechanism and different factions had different visions about the alliance's future: some believed that non-socialist forces should unite in a large and ideologically looser party organisation while others preferred a coalition of ideologically and organisationally distinct programmatic parties. The Slovak Democratic and Christian Union, or the SDKU, was born on the ruins of the SDK. Democratic Union merged into SDKU while opponents created the Liberal Democratic Union. (Učeň, 2001, 410)

This laid down the basic set up for the 2002 elections. Also this time, the HZDS was the biggest party and the SDKU came second. The HZDS was however again unable to form a coalition and it was left to opposition. A

SKDU-led majority government was formed with the Christian Democratic Movement, the Hungarian Coalition Party and the Alliance of the New Citizen.

Slovakia has had politically a very eventful post-communist period. The first part of the period was marked by the dominance of the HZDS which resulted to accusations of authoritarian rule and have consequently left the HZDS to opposition. During the latter part of the 1990s, there has been consistent stream of majority coalition governments. This would suggest commitment approach, even if political conditions have at times been rather volatile.

3.2.10 Slovenia

While the right-left cleavage is present in Slovenia and corresponding rightist and leftist parties can be distinguished for the Slovene party scene, this division has been curtailed by the existence of a strong political centre. Given this pattern, explains Zajc, 1998, Slovene political parties have been prepared to choose from a wide variety of political partners.⁵⁴ As a result, all of the post-independence governments have been centre-oriented and the Liberal Democratic Party, or the LDS has been dominating the Slovene politics. (280)

Similarly to Slovakia's Public Against the Violence movement, the first Slovenian post-communist coalition was a broad based alliance, called Demos which included most of the newly established democratic parties. For the first post-independence elections the Damos coalition was replaced by a temporary 'small coalition' including Liberal Democratic Party, or the LDS, Social Democratic Party, or the SDSS, the Greens, or the ZS, Slovene Socialist Party, or the SSS and Slovene Democrats, or the DS. During the first election term Slovenia was ruled by oversized coalition led by the LDS. Zajc, 1998 notes that these coalitions had little understanding for the role of opposition and the opposition parties were not able to present viable alternatives to the ruling coalition. Conflicts were handled in negotiations between the coalition partners, not in the parliament. The government found it politically practical to avoid debate and discussions in the important economic policy issues. (284-285)

The 1996 elections normalised the situation somewhat. Zajc, 1998 refers to the majority LDS-led coalition government that followed the elections as more balanced and more pragmatic. (285) This government, formed in addition to the LDS by Slovene People's Party, or the SLS and Democratic Party of Slovenian Pensioners, or the DeSUS, was the longest serving government in Slovene post-independent history. It was dissolved in 2000 following the SLS's decision to unite with the opposition's Christian Democrats, or the SKD to form the SLS+SKD, Slovene People's Party.

⁵⁴ This is also reflected in Slovenia's effective number of parliamentary parties in table 3.1 which is highest in the sample (excluding the Poland's corresponding figure following their 1991 atypical elections).

A SLS+SKD-led government was formed which served a very short term as the 2000 elections were on the way. After the 2000 elections, Slovenia got once again a LDS-led majority four-party coalition government.

The Slovene politics has been relatively stable. While there has been several government reshuffles during the election terms, the governing coalitions have been generally stable and the country has not had any single-party governments. This would seem to make Slovenia a candidate for commitment approach.

There are however two features in Slovenian politics which suggest that making such conclusion could be more complicated. First, the information in Yläoutinen, 2004 indicates that the number of defecting parliament members in budget votes – in other words, members who vote against the government despite being a member of governing coalition – has typically been rather large. Given that the governments in Slovenia have not enjoyed large majorities the parliament, this might have not encouraged relying on common commitments in planning stage that could be broken in legislative stage.⁵⁵

Secondly, the LDS have been very dominant in Slovenian politics as it has had the largest number of MPs in every post-communist parliament and consequently it has been represented in every post-communist government. Above, Hallerberg, 2003 proposed that the degree of uncertainty a government parties have concerning their re-election has an effect of the development of fiscal institutions. If a political system has low degree of party competition, in other words, if a same party is constantly in the government, there is little incentive for it to centralise the budget process. Idea behind this proposition is that a party which is very dominant does not have to worry about mismanagement of the economy, which would 'normally' be punished by the electorate. With low party competition this is less of a threat.⁵⁶ This discussion would suggest that Slovenia has developed features of fiefdom approach.

⁵⁵ On the other hand, the Slovenian authorities indicated that this has not been regarded as a problem in Slovenian policy-making. See chapter 4.3 of Yläoutinen, 2004.

⁵⁶ A variation in the degree of party competition has somewhat different effects on government's fiscal behaviour in different political economy models. According to the arguments in Hallerberg, 2003, a low party competition does not provide incentive for the government to centralise the budget process and overspending follows since a party who can be fairly sure of re-election does not have to fear punishment from the electorate even if it mismanages the economy. However, in some other political economy models overspending arises from the uncertainty about policymaker's prospects of being retained in the office which in turn has effects on his behavior: he may choose policies in a way that he thinks will maximize his chances to be re-elected, or if he knows that he could be replaced by someone with different preferences, he may choose policies in a way which hampers his successors policy-alternatives. For example, in Alesina and Tabellini, 1990 uncertainty of re-election – or "high party competition" – have different effects on government's fiscal behaviour than in Hallerberg, 2003. The party in power will always issue debt if it believes there is some probability he will be turned out of the office, and the policymaker is better off consuming according to his own preferences than transferring resources to an unknown future. At extreme, if he/she knows for sure that he/she will not be in the next government, there is no reason *not* to overspend. In other words, a policymaker overspends not because it does not fear punishment from the electorate, but because it wants to hamper its successors (which has different preferences) policy-alternatives.

4 CONCLUSIONS

It was argued above that commitment approach is most likely to be found from countries that have proportional elements in their electoral systems and/or diffused cleavage structures, delegation approach from countries that have majoritarian elements in their electoral systems and/or simple cleavage structure, and finally fiefdom approach from countries with unstable government types or undisciplined voting behaviour in budget votes.

The dominance of PR election systems and diffused cleavage structures in the CEECs would suggest that the majority of countries should ideally be commitment states. The discussion above largely confirms this expectation, but the story is somewhat more nuanced.

Table 4.1 brings together much of the discussion presented above on the party and electoral systems in the CEECs. The collapse of communism led rather unsurprisingly to certain political turmoil. Bulgaria, Czech Republic and Romania have experienced frequent shifts in their government types. Czech Republic could be on its way towards a two-party system if the electoral reform will work to this effect. The same could apply also to Bulgaria as its electoral system also limits proportionality and the effective number of parliamentary parties lowest among the CEECs. This is largely due to dominance of electoral blocks. Poland would be a candidate for a commitment approach as coalition governments have been dominant but it has experienced rather volatile political conditions. Its Herfindahl index has in fact decreased during the latter half of the period indicating decreased instability. On the other hand, voting behaviour appears to have become more disciplined during the parliamentary term that started from 2001. Romania's stability has increased but only modestly. Estonia's Herfindahl index decreased during the latter period but this was mainly due to one minority government. Otherwise it has had consistent majority coalitions.

Lithuania has had a fairly high degree of stability. Interestingly, the government types were concentrated on single party governments during the first part of the period, while it has had a consistent stream of coalition governments during the latter part. Slovenia would be a candidate for commitment approach but undisciplined voting behaviour combined with signs of low degree of party competition led to a conclusion that it has developed features from fiefdom approach. The rest of the countries have had more or less consistently majority coalition governments.

Table 4.1 Summary: predicted and actual fiscal institutions in the CEECs

	Stability	Electoral system proportionality	No of cleavages	Degree of party discipline in budget votes	Fiscal institutions	
					Prediction	Reality
<i>Bulgaria</i>	0,37 (91-97) 0,56 (97-02)	proportional	6	Defecting MPs not common	fiefdom (91-03); commitment/delegation (future)	fiefdom (94-98); commitment (98-)
<i>Czech Republic</i>	0,54 (92-98) 0,81 (98-02)	proportional	5,5	Defecting MPs not common	fiefdom (92-03); commitment/delegation (future)	commitment (94-)
<i>Estonia</i>	0,71 (92-95) 0,58 (95-02)	proportional	4	Defecting MPs not common	commitment (92-03)	commitment (94-); strengthened (01)
<i>Hungary</i>	1	mixed	7	Defecting MPs not common	delegation (90-03)	(weak) delegation (94-98; 02-); fiefdom (98-02)
<i>Latvia</i>	0,51 (93-98) 1 (98-02)	proportional	5,5	Defecting MPs not common	commitment (93-03)	commitment (94-); strengthened (01)
<i>Lithuania</i>	0,87 (92-96) 0,80 (96-02)	mixed	5	Defecting MPs in general not common (3-4 MPs/budget vote)	delegation (92-96); commitment (96-03)	fiefdom (94-99); commitment (99-); strengthened (00)
<i>Poland</i>	0,72 (91-97) 0,61 (97-02)	proportional	4,5	- In the 1993 - 1997 term: about 3 MPs/vote - In the 1997 - 2001 term: about 10 MPs - present term: no such cases	fiefdom (91-03); commitment (future)	fiefdom (94-99); commitment (99-)
<i>Romania</i>	0,46 (90-96) 0,55 (96-02)	proportional	7	Defecting MPs common but the number is usually small	fiefdom (90-03); commitment (future)	(weak) commitment (94-03); strengthened (03)
<i>Slovakia</i>	0,70 (92-98) 1 (98-02)	proportional	5	Defecting MPs not common	commitment (92-03)	commitment (94-); strengthened (00)
<i>Slovenia</i>	0,66 (92-97) 1 (97-02)	proportional	8	Defecting MPs common but the number is usually small (1-5 /budget vote)	fiefdom (92-03); commitment (future)	(weak) delegation (94-)

Information on the degree of party discipline in the budget votes in the legislature and the classification of actual fiscal institutions comes from Yläoutinen, 2004.

The final column presents the actual types of fiscal institutions based on Yläoutinen, 2004. In general, a connection between the theory's predictions and the reality exists. Almost all countries have strengthened the commitment element of their fiscal frameworks recently by introducing multi-annual

frameworks. The two countries with the most powerful finance ministers – Hungary and Slovenia⁵⁷ – are classified here as “weak” delegation countries due to the fact that the finance ministers’ powers do not cover implementation stage of the budget process.⁵⁸ Further, a general connection between political instability and decentralised budget processes have existed. Countries predicted to have fiefdom governments have generally developed weaker fiscal institutions also in reality.⁵⁹

Therefore, the important conclusion is that this discussion does lend general support to the notion about the interdependency between the political fundamentals and the development of fiscal institutions. This indicates that no “one-size-fits-all” solutions exist in fiscal management. Consequently, the design of such institutions should pay due attention to the political factors, alongside with the economic ones. Finally, it is worth noting that party and electoral systems are yet to be stabilised in some countries, and fiscal institutions could very well be affected in the process. A certain degree of political stability would seem to be a prerequisite for stable fiscal conditions.

⁵⁷ One should also note that especially Slovenia’s fiscal institutions include many features from commitment approach, too. In this sense, the classification for Slovenia is less pronounced.

⁵⁸ In the literature, three different phases of a budget process is usually identified: the formulation of a budget proposal within the executive, the presentation and approval of the budget in the legislature, and the implementation of the budget by the bureaucracy

⁵⁹ According to Yläoutinen, 2004, countries with more centralised fiscal institutions have enjoyed from better fiscal discipline. He also finds evidence that “fiefdom” countries have suffered from lack of fiscal rigour compared to countries with commitment or delegation approaches.

ANNEXES

Annex 1: Notes for tables 3.1, 3.2 and 3.3

Table: 3.1 Comparison of electoral systems in the CEECs

Following Lijphart, 1994, an electoral system is defined as a set of essentially unchanged rules under which one or more successive elections are conducted. New electoral system is defined if new electoral formula is being employed, or if there is 20 % or greater change in district magnitude or assembly size. Lijphart defines new system also if there is a change in legal threshold. In this table this criterion is omitted (minor changes in legal thresholds have been common in the CEECs, and three countries (Poland, Romania and Slovenia) have experienced a 20 % or more increase in legal threshold during the period examined. If a figure is expressed as integer, it refers to exact number, not to average. The table does not make a distinction between party/electoral blocks and more uniform parties. Thus party/electoral blocks are as a rule treated as a single party.

¹ Czech Republic has modified also its election system for -92, -96 and -02 elections. The modifications had to do with the way the preferential votes (ie. multiple votes) were calculated. In all of the elections the mandates have been distributed among candidates nominated by the political parties in the order of priority of the list of candidates, but the preferred votes can disturb the list. For -92 elections, the mandate in the first turn is given to that candidate who gained more than half of the votes of those voters, who used their rights of preferential election of candidates. For -96 elections, the candidate who received the number of preferential votes which equals or exceeds ten per cent of the total vote obtained in the electoral region by the political party or coalition the candidate represents shall be awarded a seat first. Finally, for -02 elections candidates who receive a number of preference votes which is at least 7% of valid votes for their party have priority in obtaining a mandate. Therefore, while the system has been 'open list' during the whole period, the 'openness' of the election system has increased as a result of these successive reforms.

² For 1992 elections, the number of districts was 12, and for successive elections 11.

³ Lithuania has employed mixed 2-tier system the entire period but has introduced some reforms. In 1992 elections, "in a single-candidate electoral area, the voters shall mark the surname of the candidate for whom they are voting, whereas in a multi-candidate electoral area, the voters shall mark the name of the political party or social political movement (coalition) for whose candidates they are voting for" (see article 57 (1) of the 1992 election law). For 1996 elections, preference voting was introduced. Article 65(3) of the 1996 electoral law states: "On a ballot paper of a multi-candidate electoral area the voter may make appropriate marks in the table of candidates' rating - to express a positive or negative opinion about the candidate (candidates) included in the list of candidates whom he has voted for - to cross out the surname of the candidate or the number of the candidate on the list, and this shall mean voting for the establishment of a different sequence of candidates on this list." For 2000 elections, the law was modified further. This reform had to do with the establishment of the results in single-member districts. In 1996 elections, a candidate was considered elected when more than half of the voters participating in the elections vote for him/her in the elections. If more than two candidates were standing for election in the electoral area and none of them received the required amount of votes, a repeat voting was organised between the two candidates who received the most votes in the first voting (see article 87 (3) and (4) of the 1996 election law). In 2000 elections, a candidate is elected when the majority of voters participating

in the elections vote for him/her (see art 88 (3) of the 2000 election law). Further, the number of preferred votes was reduced to five.

⁴ In 1991 elections there was a 5 % threshold for national list or winning seats in at least 5 constituencies (no threshold for districts). For 1993 and 1997 elections, the thresholds were the following: 7% for national list, 5% nationwide for districts and 8% for coalitions. Finally, for 2001 elections, the national list was abolished, and the 5 % nationwide threshold for districts was implemented.

⁵ For 1990 elections, assembly size was 391 and number of districts was 41. For the 1992 and 1996 elections the assembly size was 341 with 42 districts. For 2000 elections, the assembly size was 345, including 18 awarded seats to national minorities, up from 15 seats in 1992 and 1996. In 1990 elections, Romania did not have legal thresholds, but for 1992 elections 3 % national threshold (higher for coalitions) was introduced. For 1996, and successive, elections Romania employed 5 % national threshold (higher for coalitions).

⁶ Slovenian electoral law establishes two single-member districts for Hungarian and Italian minorities. Legal threshold was introduced for 2000 elections, before that no legal threshold was applied.

Election system: PR=proportional representation, mv= multiple votes, voters can express preferences for some candidates over others, closed list= the order of candidates elected by that list is fixed by the party itself, and voters express preference for a party, not for a particular candidate, open list= voters can express preference for their favoured candidate.

Sources:

- electoral laws of the CEECs (several years),
- Inter-Parliamentary Union's Parline database (www.ipu.org),
- Berglund, Hellén, Aarebrot (Eds.), 1998.

Assembly size: Source: Inter-Parliamentary Union's Parline database (www.ipu.org)

District magnitude: Own calculations. Calculated by taking an average of district magnitudes. District magnitude refers to average number of MPs elected from district. Source: see 'Election system'.

Effective number of parliamentary parties: Own calculations. Calculated according to $N = 1 / \sum s_i^2$, where N = effective number of parties in parliament and s_i = proportion of seats party i posses in the assembly (measure constructed by Laakso and Taagepera and presented in Lijphart, 1994, 68).

Sources:

- University of Essex's Project on Political Transformation and the Electoral Process in Post-Communist Europe (www.essex.ac.uk/elections/),
- Rose, Munro and Mackie, 1998,
- Centre For The Study Of Public Policy Database (www.cspp.strath.ac.uk/),
- Berglund, Hellén, Aarebrot (Eds.), 1998,
- contributions in several issues of European Journal of Political Research: 26, December, 1994; 28, December, 1995; 30, December, 1996; 32, December, 1997; 34, December, 1998; 36 December, 1999; 38, December, 2000.

Legal national threshold: Refers to legal threshold a country employs at the time of latest elections. Source: see 'Election system'.

Effective threshold: Own calculations. Refers to minimum level of support which party needs to gain representation in the assembly. Stated as a percentage of the total national vote.

Calculated as: $T = \frac{50\%}{(M + 1)} + \frac{50\%}{2M}$, where T = effective threshold, M = district magnitude.

For rationale for using this measure, see Lijphart, 1994, 27. Following Lijphart, 1994, if mechanistically calculated effective threshold is lower than legal threshold, then the latter automatically becomes the effective threshold. For two- or higher-tier systems, T is calculated from higher-tier district. Source: see 'Election system'.

Table 3.2 Comparison of cleavage structures in the CEECs

source: Hellén, Berglund and Aarebrot, 1998 which, in turn, is based on contributions in Berglund, Hellén and Aarebrot, 1998. For a cleavage to be listed as relevant, a party representing it must have gained at least five per cent of the vote in recent general elections (at the time of writing). The same party may be salient in more than one cleavage. Number of cleavages has been attained by adding up the table entries (cleavages in parenthesis have been coded as “half of a cleavage”).

Explanation for different cleavage types:

Core population vs. ethno-linguistic minorities: Refers to political parties that are clear-cut representatives of a linguistic or ethnic majority, or to any party appealing to the core population by negative references to national minorities

Religious vs. secular: Refers to parties which defend religious values, or parties which attack religious values and argue for secular society

Urban vs. rural: Refers to parties which represent cities or rural areas

Workers vs. owners: Refers to left-right division and manifest itself through parties which derive their support primarily from within organised labour or employers organisations

Social democrats vs. communists: Refers to parties derived from the traditional conflict between internationalist and nationally-oriented socialism

National vs. cosmopolitan: Refers to parties with the nation-state as the focal point, and parties strongly oriented towards international co-operation as a way of solving political problems. Nationalist or cosmopolitan rhetoric must be a dominant feature of the party’s appeal.

Protectionist vs. free market: Refers to parties which try to preserve subsidies for unprofitable industries, or to parties which argue for the benefits of free markets

Generational: Refers to parties which derive their support from people with a common generational experience (such as pensioners and youth)

Apparatus vs. forums/fronts: Refers to parties which are derived from the old communist ruling apparatus, or parties which represent a direct continuation of the early anti-communist popular forums and fronts.

Table 3.3 Comparison of government compositions in the CEECs

Own calculations. Calculated as a percentage of the days a government composition has been in office out of the total days of the respective period. The cut-off date is 31.12.2002. The years refer to years when the parliamentary elections have been conducted. A government is coded as “multi-party” if it includes two or more parties. The table does not make a distinction between party blocks and more uniform parties. Stability of government composition refers to a Herfindahl index, which is calculated as $\sum g_i^2$, where g_i refers to proportion of time a certain type of government composition has been in office. The types of government compositions used to calculate the index were “majority multi-party government”, “majority single-party government”, “minority government” and “acting/non-party government”. Number of governments comes from Zárates Political Collection. Typically, a change in government means that there has been a change in the prime minister, or in the government parties.

Sources:

- Zárates Political Collection (www.terra.es/personal2/monolith/),
- University of Essex's Project on Political Transformation and the Electoral Process in Post-Communist Europe (www.essex.ac.uk/elections/),
- Rose, Munro and Mackie, 1998,
- Centre For The Study Of Public Policy Database (www.cspp.strath.ac.uk/),
- Berglund, Hellén, Aarebrot (Eds.), 1998,
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