

## Do the Economic Effects of Constitutions Depend on the Degree of Institutionalization?



If politics is conducted largely outside of formal arenas, political institutions may not play a very large role in determining policy outcomes.



We propose a new index of institutionalization to capture how much policy-making takes place in formal arenas.



We find that previous conclusions on the economic effects of constitutionally established majoritarian electoral systems and presidential forms of government are applicable only to countries with high levels of institutionalization.

### CONTEXT

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The Political Economy literature largely studies formalized arenas, such as the legislature, where participants are bound by formal institutional rules. In some countries, though, power in the streets and threats of disruption—alternative political technologies—may be as important as formal institutions. In order to examine the degree of institutionalization across democracies, we explore the conditional effects of constitutional rules on policy outcomes through exercises on two basic constitutional factors (form of government and electoral rules) and their effects on fiscal policy, a direct and measurable type of outcome. This may illuminate which reforms are needed and how they can be undertaken.

### PROJECT

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We propose a new index for institutionalization by considering the degree of institutionalization of congresses, parties, judiciaries, and bureaucracies. We then replicate previous authors' exercises to ascertain whether the policy effects of constitutions depends on a country's degree of institutionalization. In line with previous work, it is expected that *presidential countries* and countries with *majoritarian electoral systems* would tend to present governments of smaller size and programs that are narrower in scope. This hypothesis is tested using a regression in which the dependent variable is a measure of central government expenditure as a percentage of GDP of a specific country.

## RESULTS

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The standard view—that constitutional structures affect fiscal policy—holds for high-institutionalization countries but not for low-institutionalization countries. This means we can affirm that presidential forms of government and majoritarian electoral systems only influence public spending in countries with high institutionalization. Consequently, policy effects of constitutions depend on whether a country’s policy-making is institutionalized or not.

These results are clearly identified in the [figure 1](#). In each panel, the relationship between presidentialism and government size is plotted. Countries are divided into high and low institutionalization according to cluster analysis. While there is a negative correlation, as expected according to the existing literature, for high-institutionalization countries (those countries in which decisions actually happen in formal arenas of policymaking), the same relationship is not present in low-institutionalization countries (right panel of the figure). These results are robust to a variety of clustering techniques, dependent variables, and instrumental variable estimations.

### Key Concept



### ALTERNATIVE POLITICAL TECHNOLOGIES

Informal procedures that take place in the political arena (e.g., violent protests) and that can have the same impact on policies as formal electoral or legislative rules.

## POLICY IMPLICATIONS

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Constitutions and political institutions matter for public policy outcomes, as they affect the incentives of politicians and policymakers when designing and implementing public policy. Still, their effect is not the same in every country. In some, decisions are taken in institutionalized arenas such as the halls of Congress. In others, alternative political technologies such as the threat of destruction on the streets matter too. It is thus important to have a broader understanding of the mechanisms through which political institutions affect the design and implementation of public policies, and hence social welfare. Moreover, we need to understand better the process of institutionalization and the institutions and reforms that make it more likely.

Countries with low levels of institutionalization and high use of alternative political technologies tend to be associated with lower growth, lower productivity, and worse public policies. Investing in institutionalization is a must. For that purpose, countries may want to foster investment in government capabilities, such as: (i) strengthening legislatures; (ii) strengthening the judiciary and promoting its independence; (iii) strengthening public agencies, promoting professionalization and some degree of accountable autonomy and independence; and (iv) strengthening political parties, which includes fostering their programmatic capabilities and their national orientation.

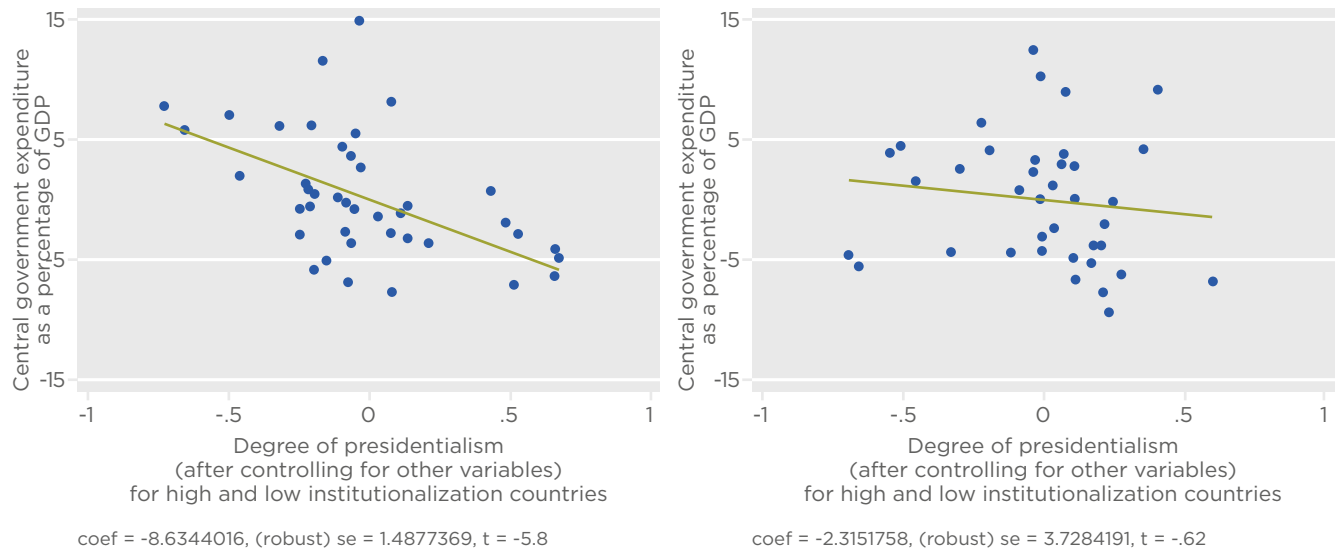
### Key Concept



### INSTITUTIONALIZATION

The degree to which formal political arenas such as the legislature or the political party system are in fact the loci of political power.

**Figure 1. Fiscal Policy and Political Institutions in High and Low Institutionalization Countries**



## IDB RESEARCH ON POLITICAL ECONOMY

This document is part of a series of studies and initiatives that the IDB has promoted to understand the role of institutionalization in state capacity, particularly the causes and consequences of low government capacities. This work positions the IDB as an opinion leader on political economy issues while improving lives in Latin America and the Caribbean.



### FULL STUDY

[Caruso, Germán, Carlos Scartascini, and Mariano Tommasi. 2015. "Are We All Playing the Same Game? The Economic Effects of Constitutions Depend on the Degree of Institutionalization." \*European Journal of Political Economy\* 38 \(June\): 212-28.](#)

This study was also published as an [IDB Working Paper](#).

## DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

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