

Political Parties and Public Policy

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History, it was once alleged, “ended” in the happy and permanent state of democratic prosperity.¹ Since World War II, the world’s democracies had demonstrated superior powers to achieve both economic development and national security, forcing other regimes to struggle to keep up. Following the Cold War and the collapse of Soviet Communism, adopting democratic institutions became the price of entry for former East European countries into NATO and the European Union. Even Vladimir Putin insisted that Russia was a “sovereign democracy.” Ignoring such euphemistic claims, by the turn of the 21st Century there were nonetheless more democracies than non-democracies in the world for the first time, and academics, disinclined to teleology, were prone to grant democracy an exception to the rule. China remained stubbornly authoritarian, but much of the Western commentary focused on how long the regime would be able to resist modernizing pressures to democratize—not whether it would ever happen.

That optimism has gone. Not only have authoritarian strongmen eroded democracies in Turkey, Latin America and much of Eastern Europe. Resurgent authoritarian regimes in the Middle East and North Africa have Tunisia as the only remaining harvest of the Arab Spring of 2010-11. To a degree and extent once unthinkable, many Western democracies show signs of internal fragility. Even global leaders and democracy exporters such as the U.S. and Britain no longer appear immune from regime dysfunction. Book titles like *How Democracies Die*, *How Democracy Ends*, and *The Road to Unfreedom* capture a new sense of gloom about democracy’s prospects.²

We do not offer a crystal ball about democracy's future. We argue, instead, that democracies have the best chance of thriving if they can provide policies that are good for most voters over the long run, and we suggest why programmatic competition between disciplined political parties is the best way to choose good policies, as Joseph Schumpeter recognized almost eight decades ago.³ Policies aimed at the voter in the political middle may not always be optimal, particularly when extreme income inequality leaves many people in poverty or enduring prejudice harms ethnic and racial minorities. But strong parties, by resisting populist tricks, are less likely to divide and disempower these voters in the first place. The choice of policies, in other words, depends on the structure of political competition. This logic is lost on advocates of identity politics; minority disenfranchisement and disadvantage are real, but they are man-made blights exacerbated by internally weak parties that cannot deliver on prosperity.

In what follows we discuss why political competition is important for prosperity, but we also explain why not all forms of competition are equally conducive to good public policy. How political competition is structured has discernible consequences for policy. More than we may have realized, the internal structure of political parties as well as the number of parties that compete for votes also have bearing on the viability of democratic governance itself. We describe the deleterious effects on policy of weak party discipline and of party system fragmentation. Informed citizens should resist the temptation to wrest the steering wheel from political parties. Instead, they should seek ways to strengthen parties, enhancing their ability to formulate and implement good public policy.

Why Two Strong Parties

Our argument echoes E.E. Schattsneider's classic scholarship on political parties. Schattsneider's central insight was that "parties do not need laws to make them sensitive to the

wishes of the voters any more than we need laws compelling merchants to please their customers. The sovereignty of the voter consists in his freedom of choice... Democracy is not found in the parties but between the parties.”⁴ Electoral competition between two large parties that straddle the political middle achieves what no amount of “democratizing” of parties (through primaries) or proliferating of parties could accomplish: it forces parties to take turns at offering, and then implementing, policies that benefit most voters. And because parties, unlike individual politicians, have reputations that go into the indefinite future, competition between parties pushes them to offer policies that will be good for voters in the long term.

In line with Schattsneider, Carey and Shugart elaborated on the corrosive effects of competition *within* parties.⁵ Their core insight was that party backbenchers who are electorally accountable as individuals rather than as members of a disciplined party would be unable to commit to policies that, for the sake of the party’s long term reputation and strength, would benefit most of the voters most of the time, over the long haul. Carey and Shugart’s contribution was to rank-order electoral systems by features most conducive to party discipline and, by extension, by their ability to deliver good public policy.

But Carey and Shugart, and indeed much of the academic mainstream, depart from Schattsneider in one important respect: they do not share his admiration of two large parties. We agree with them that postwar European social democracy was superior to the obsession with limiting the taxpayer’s burden that often resulted from the Anglo-American competition for the median voter.⁶ European PR democracies excelled at combining economic prosperity with social equality throughout much of the postwar period. Not only Scandinavia, where social democracy was strongest, but other European PR countries as well, outperformed the U.S. and

U.K. in providing unemployment insurance and job retraining for those left behind in the global economy.

If, as Carey and Shugart, we consider the effects of strong party discipline alone, closed-list proportional representation systems might produce better policies than district-based systems that cater to some degree to narrowly-based and self-serving groups anchored in geographic districts.⁷ Large portions of the population in western Europe were unionized workers in well-paying and stable industrial jobs, and because these jobs depended on trade competitiveness, workers restrained their wage demands. Social democrats representing these workers were a regular and moderate presence in government. Coalition governments across the political spectrum underwrote a kind of political cartel between representatives of workers and employers to ensure export-led growth with egalitarian benefits.⁸

Europe's golden formula of class compromise might, however, have rested on a rare and lucky confluence of circumstances. Democracy confronts big challenges everywhere. One source of them is that, as the proportion of workers in stable industrial jobs has declined, the number of parties in PR systems in particular has proliferated. This, in turn, strains parties' ability to forge the famously moderate coalitions of yore that were able to balance short term and long term benefits of the citizenry. Preliminary evidence suggests that, under these new conditions, the growing fragmentation in PR systems will push more countries towards ill-advised clientelism.

Note, moreover, that Westminster's strong two-party competition produced single-payer health insurance, strong transportation infrastructure that has survived successive nationalizations and denationalizations, and impressive climate change policies to rival those of continental Europe. In the U.S., by contrast, weaker party discipline has robbed the American electorate of

those policies, despite their popularity. Britain's strong parties have also protected ethnic and racial minorities better than the weak parties in the U.S., notwithstanding America's Bill of Rights and independent judiciary to enforce it. Nor need minorities in Britain live in fear of the growing presence of far right, often flagrantly racist and xenophobic parties that have been gaining footholds in many European legislatures over the past decade.

Westminster has the additional advantage over PR countries in offering voters a clear choice between two broad visions of the public good that can hold governments accountable for policy outcomes. Coalition governments can hypothetically deliver policies in the political middle just as well as a center-posturing majoritarian party through post-election bargaining.⁹ To the extent this is true, proportional representation systems have the edge over majoritarian systems. Proportional representation systems that are based in large rather than small geographic districts can aggregate interests at or close to the national level, considering the costs and benefits of a given policy on the entire population. Moreover, large, encompassing political parties such as Germany's SPD and CDU/CSU have aimed, in the past, at the broad interests of voters in the ideological middle, eschewing policies desired by narrow groups that would be costly to many others.

This configuration would appear nearly ideal for the adoption of policies designed to promote broadly beneficial outcomes, and to predict inclusive and long term prosperity. Germany performed so admirably over the postwar decades that many countries in the second and third waves of democratization emulated Germany's mixed member electoral system, which was anchored in PR but had an element of single member districts to foster large parties that would aim at the middle. But the the German Labradoodle—a dog with a winning disposition that does not shed—proved hard to emulate, with imitators from Italy to Mexico to South Korea

and Japan—ending up with Poodledors instead. Even in Germany the felicitous combination seems to be breaking down. It took Angela Merkel seven months to cobble together a government after the 2017 elections, and even then she only managed to entice the SPD back into it because polls showed that the AfD would do even better if the country went to another election—as was confirmed in the regional elections in Hesse and Bavaria the following year. As we will see, Germany’s capacity to deliver the kinds of encompassing policies for which it is so well-known is now in doubt.

The upshot is that Schattsneider’s argument about the countervailing advantages of majoritarian electoral systems may have been right after all. Forcing two large parties to compete for the political middle reduces the hold that smaller, niche parties might have on final coalition building in legislative politics.¹⁰ When only two parties compete for votes, political competition will more likely to converge on economic policies aimed at the broad interests of the nation. By contrast, if parties in a PR system join a government coalition and then logroll the intense preferences of their respective constituencies, the population at large might well pay for the costs of those logrolls in the form of higher prices for protected industries, higher taxes for privileged recipients of redistribution, and possibly lower long term growth.¹¹ It is an empirical question whether and under what conditions separately elected parties in PR systems can and will subordinate the interests of their respective constituencies to those of the coalition government.¹² The preliminary empirical results that we present below suggest that current economic conditions may undermine the ability of parties in coalition governments collectively to internalize the costs of their respective constituents’ interests, to the detriment of good economic policy.

Democracy everywhere faces bigger challenges than in the rapid growth years following World War II. But as the proportion of workers in stable industrial jobs has declined, the number of parties has proliferated in PR systems, straining the ability of even strong parties to forge the famously moderate coalitions of yore that balanced short term and long term benefits of the citizenry. Preliminary evidence suggests that, under those new conditions, the growing fragmentation in PR systems may push more countries towards ill-advised clientelism.

Empirical Strategy and Findings

Understanding how democratic systems work requires measuring how both party discipline and party fragmentation, and how they work in combination. The interaction effects are complicated because the more parties there are, the smaller each will be and therefore the less will historically important party discipline matters in policy making. We undertake this study in two steps: first, we explore the connection between the decline in industrial jobs and party fragmentation under different electoral rules. Prosperity underpinned political moderation by giving the mass of voters a stake in the status quo. Many voters have abandoned traditional parties on the left, perhaps from frustration at their inability to stem the tide of job loss in the face of automation and or foreign replacement of domestic manufacturing jobs. Second, we examine how party fragmentation and party discipline, in combination, shape policy outcomes.

Our empirical study suggests that party fragmentation, which in PR systems follows a drop in industrial jobs, decreases spending on public goods and increases spending on individual transfers. Strikingly, this change in budget priorities occurs more in disciplined systems than in weak party systems.¹³ On the other hand, party fragmentation had no effect in undisciplined systems. Put another way, party discipline did not inoculate countries against the potent and negative effects of party fragmentation on a government's ability to offer good public policy.

Because the data we employ cover several decades and many countries, they likely understate the effects of today's accelerating deindustrialization.

Table 1: Industrial Jobs and Voter Support

	Left		Right	
	Traditional	Non-Traditional	Traditional	Non-Traditional
	(1)	(2)	(3)	(4)
Ind Jobs	0.41 (0.57)	-0.89** (0.43)	0.54 (0.32)	-0.24 (0.18)
SMD	0.12 (0.10)	-0.02 (0.07)	-0.11* (0.05)	0.05 (0.05)
Open List	-0.03 (0.05)	0.05 (0.03)	0.06** (0.02)	0.01 (0.03)
Presidential	-0.02 (0.03)	0.03 (0.02)	0.02 (0.02)	-0.09*** (0.02)
GDP per cap	0.05 (0.08)	0.03 (0.06)	-0.01 (0.04)	0.04 (0.05)
R2	0.907	0.646	0.927	0.822
N	222	222	222	222
Mean of Dep Var	0.272	0.060	0.298	0.047

Statistical significance: *0.10 *0.05 ***0.01

Tables 1 and 2 offer quantitative details. Table 1 shows that a shift in votes from the traditional postwar left-leaning parties to new parties on the left increased the number of parties. In Table 2 we show that a 10% drop in the share of industrial jobs is associated with an increase in the number of effective parties, principally on the left, by about a half a party across all of these country-years. In Germany, for example, the Social Democrats (SPD) lost votes to their left, to Die Linke and the Greens, forcing the SPD in turn to move leftward or at least to spread out ideologically. The CDU under Prime Minister Angela Merkel took tactical advantage of

their move by staking a larger claim to the political middle, which in turn may have spawned AfD activism on her right as she did so. Fragmentation on the left, in response to fewer industrial jobs, appear to have unleashed spatial strategies that increased fragmentation across the political spectrum.

Table 2: Industrial Jobs and Fragmentation on Left Parties

	Left	
	By Vote (5)	By Seats (6)
Ind Jobs	-4.73* (2.59)	-5.73** (2.50)
SMD	0.47 (0.72)	0.30 (0.64)
Open List	0.68** (0.27)	0.55** (0.25)
Presidential	0.25 (0.36)	0.25 (0.40)
GDP per cap	0.60 (0.75)	0.52 (0.60)
R2	0.792	0.795
N	221	222
Mean of Dep Var	1.821	1.697

Statistical significance: *0.10 *0.05 ***0.01

Column (1) in Table 3 shows that fragmentation occurred mostly in non-SMD systems, as we would expect. Majoritarian systems, even if beset with the same loss of industrial jobs, throws up barriers to a political strategy of launching smaller parties to capture the disaffected.

Column (2) in Table 3 shows the same substantive results if we measure the effects of majoritarian systems by the minimum share of votes within a district necessary for a party to secure one seat (rather than SMD). At very high levels of electoral system proportionality, a 10% loss of industrial jobs increases the number of parties by more than one half on average

(0.71). With every 10% increase in the minimum share of votes needed to win a seat, approaching the 50% of SMDs, the number of parties decreases by about a quarter of a party on average. Column (3) shows that in PR systems with open or closed lists—that is, irrespective of internal party discipline—the decline in industrial jobs is significantly associated with left party fragmentation. For reasons we do not explore in this paper, but which we speculate may have something to do with clientelism in the presidential systems of Latin America that are also in this data set, Column (4) shows that the connection between the loss of industrial jobs and left party fragmentation only exists in parliamentary systems.

Table 3: Industrial Jobs and Fragmentation on Left Parties, Heterogeneous relation

	Effective Number of Left Parties			
	(1)	(2)	(3)	(4)
Ind Jobs	-5.21** (2.39)	-7.19*** (2.57)	-5.87** (2.55)	-5.46** (2.50)
Ind Jobs × SMD	8.91** (4.01)			
Ind Jobs × Min %		25.51** (11.51)		
Ind Jobs × Open List			1.76 (3.50)	
Ind Jobs × Presidential				11.40*** (3.91)
R2	0.799	0.803	0.795	0.800
N	222	212	222	222
Mean of Dep Var	1.697	1.685	1.697	1.697
+ p-value	0.445	0.505	0.032	0.232

Statistical significance: *0.10 *0.05 ***0.01

Party Fragmentation and Economic Policies

The splintering of parties on the left in response to dissatisfaction reduce these parties' support for moderate policies that benefit the political middle and long term interests for most voters. A decrease in left-vote cohesiveness away from the median voter is likely to shift policies towards smaller and more dispersed groups of voters.

Table 4 offers suggestive evidence for that trend, that left fragmentation reduces spending on public goods (community services) when the left is in government. By contrast, agricultural producers' support, which is an example of spending on narrower groups in the population, increases with fragmentation. Spending on redistribution, the hallmark policy of the left, increases with fragmentation when the left is government and decreases when the right is in power. This suggests that fragmentation is likely to reduce long-term growth and prosperity while increasing political fragmentation. Public goods provision is superior to redistributive transfers favoring insider groups; and while transfers designed to reduce inequality are desirable, fragmented political systems tend not to transfer income to the weak.

Table 4: Fragmentation on Left Parties and Policy Choice and Outcome

	Gov Spend Commu- nity	Agric Producer Support	Gov Spend Redistri- bution	Unemploy- ment Rate
	(1)	(2)	(3)	(4)
Left Frag	-0.03 (0.04)	0.25*** (0.06)	-0.42** (0.19)	0.01 (0.20)
Left Frag × Left Gov	-0.15** (0.07)	0.06 (0.08)	1.01** (0.39)	1.02*** (0.37)
Left Gov	0.18*** (0.05)	-0.32** (0.13)	-0.06 (0.22)	0.30 (0.27)
R ²	0.544	0.913	0.948	0.746
N	478	302	478	639
Mean of Dep Var	0.759	1.430	15.370	7.165
+ p-value	0.008	0.000	0.107	0.030

Statistical significance: *0.10 *0.05 ***0.01

In more bad news, when the left is in government, fragmentation increases unemployment: one additional left party causes an increase of 1% in the share of workers who are unemployed. We speculate that the fall in industrial jobs forces the left to continue serving well-organized workers with employment benefits and protection at the expense of workers who have lost their jobs and who find it hard to get a new job given the high costs of employment.

Postwar prosperity generated political moderation that masked institutional differences that have since begun to reveal themselves. Large and well organized groups such as unionized workers, able to support a strong party of the left, moderated their demands for higher wages because organized labor was such a large proportion of the total population to encompass their interests as consumers and exporters as well as workers.¹⁴ Majoritarian electoral systems by contrast forced parties to aim at broader coalitions than industrial workers alone, but the governments and policies produced by majoritarian and PR systems would be much the same if

industrial workers encompass the median voter. As organized labor shrinks as a percentage of the population, its interests have diverged from those of voters in the middle, pulling labor parties to the political left. Because PR systems make it easy for parties to fragment and gain election as small parties, deindustrialization has produced left-party fragmentation in PR but not in majoritarian countries.

Majoritarian systems: strengths and weaknesses

The disciplined, PR systems of Europe have been hard-hit by the decline in industrial jobs. The U.S. and Britain have not fared so well either, but in each in its own way. National parties in the U.S. are weak by design because they share control over policy levers with each other and with different levels of government. Cox and McCubbins (2005) point out the status quo bias of the U.S. system, which perhaps was an advantage in good times.¹⁵ The tendency for citizens to blame politicians for bad economic fortunes has produced an accretion of reforms, including legislative party primaries and referendums that further weaken the ability of parties to craft and implement programmatic electoral platforms aimed at the country's best interests. State legislatures' drawing of congressional district lines to favor incumbents or, worse yet, one party's incumbents over another's, have skewed the results of primaries towards extremists and party activists who bother to turn out in primary elections. Voters respond to the resulting Congressional polarization and policy gridlock with even more fury that that has fueled Trump's executive adventurism.¹⁶

Britain's Westminster system that combines single member districts with parliamentary democracy has been synonymous with strong party competition. But in Britain, too, the decline in industrial jobs has produced a growing divide between London's service-sector prosperity and the rest of the country. The parties have weakened internally, as constituencies from one kind of

district share fewer interests with the other. These demographic changes overwhelmed Britain's very strong institutional incentives, giving vent to the demand for Brexit and the subsequent assaults on the system of internal party control.

Misguided Solutions

Previous scholarship has shown that, separately, party fragmentation and party indiscipline contribute to the under-provision of public goods and the over-provision of private goods. Our principal contribution is to consider how these institutional features interact. Strongly disciplined parties are less able to provide public goods as their number increases; and transfers to individuals, which we take as a proxy for inefficient clientelism, increases for disciplined parties as their number increases. Conversely, the less internally disciplined political parties are, the less important are party labels and their fragmentation for policy making. This finding offers no endorsement for low party discipline, however, since these systems begin with lower capacity for public goods provision to begin with.

To the extent that traditional parties are fragmenting in established democracies, especially in Western Europe, we should expect increased budget allocations to individual transfers, decreased allocation to public goods, and increased allocation to future consumption, especially in disciplined systems. It is striking that party discipline in this circumstance offers no cure and may actually worsen the ills of party fragmentation.

The impulse to “democratize” parties by weakening party discipline by means of open lists and primaries, however, is equally misguided. Neither party discipline nor indiscipline can guard against the potent and negative effects of party fragmentation on a government's ability to offer good public policy.

Industrial jobs have disappeared in rich democracies, undercutting political moderation. This has occurred nowhere more dramatically than in the proportional representation countries of Europe where small, extremist parties have grown with astonishing speed and effectiveness. In the U.K., by contrast, neither the racist British National Party nor the anti-European UKIP have made significant parliamentary inroads. With a 12.6 percent of the vote in the 2015 U.K. election UKIP would have netted 86 seats in the House of Commons instead of the solitary seat it won.¹⁷ As in the 1920s and 1930s, when extremist parties exploited economic stagnation to make major inroads in countries, the fascist Mosleyites got nowhere in British electoral politics.

Reforms in many proportional representation countries have moved in the wrong direction: opening list systems to let voters select individual representatives on party lists, and using primaries to draw up lists. These measures produce intra-party competition that rewards small groups with intense preferences, and undermine healthy competition over national programs. It would be far better to increase thresholds, forcing small parties to combine, retain closed lists to strengthen party leaderships, and use counting rules that tilt in favor of the largest parties.

Internally disciplined and hierarchical parties have an undemocratic ring. The key to democratic accountability is for leaders' authority to be conditional on parliamentary backbenchers' preference for strategic moderation. If party members know they are better able to get and stay elected when they offer coherent policies, they can choose new leaders who can—as the swift departures of Margaret Thatcher in 1990 and David Cameron in 2016 underscore. Parties that are broad-gauged, encompassing an electoral majority, and are disciplined enough to enforce majority-enhancing deals give voters clear signals of what the party stands for, and what it will implement in the event that it wins the election and becomes the government.

Populism in the U.S. and U.K. has corroded the major parties, to be sure. But first-past-the-post electoral rules in these countries force groups like the Tea Party to fight for prominence within the established parties rather than to establish separate political parties. Electoral competition in Single Member Districts has blunted the force of extremist groups, though decentralizing reforms have rendered them more vulnerable to hostile takeovers—as Jeremy Corbyn’s reelection by the membership in September 2016 following an overwhelming no-confidence vote from the Parliamentary Labour Party and Donald Trump’s hostile takeover of the Republicans underscore.¹⁸ The more electoral districts remain competitive between the two major parties, the more electoral competition benefits the average citizen. Parties forced to compete for the political middle must be strategically moderate or fail.

Better Pathways for Reform

Democratic accountability rests on political competition between strong parties that can craft and deliver good policies. In proportional representation systems, raising the electoral threshold for legislative representation would reduce the toehold of small extremist parties and would force party leaders to bundle policies at the level of aggregation that benefits most voters over the long term. Eliminating open-lists and primaries would give party leaders the levers of control with which to enforce this kind of strategic moderation. Scrapping run-off elections would also promote moderation by robbing narrow interest groups of a source of power—their ability to swing elections in the second round of voting in exchange for special favors. Proportional representation countries, which have an advantage over district-based systems in controlling backbenchers to offer nationally competitive platforms, forfeit that advantage when they succumb to the false promises of decentralizing forms of “party democratization.”

District-based systems such as the U.S. and Britain need radical restructuring in the direction of national competition. Ideally, every electoral district would be diverse in ways that mirror the nation's diversity across the range of issues that voters care about. Given the wealth and prosperity differentials between New York and London and many other parts of their respective countries, an ideal system would include a sliver of cities, suburbs, and rural areas in every constituency. The median voter in each constituency would then better resemble the national median voter, and their elected representatives would find it comparatively easy to agree on policy priorities. Back-benchers in the legislature would be willing to delegate authority to their party leaders in order to get legislative work done and protect the party's brand into the future. In Britain, this would also mean substantially increasing the size of constituencies and correspondingly reducing the number of MPs. The average British constituencies are a third the size of Germany's single member districts and a tenth of the size of the typical U.S. Congressional district.

American geographic diversity is locked into constitutional powers of the Senate that pose even bigger challenges. One realistic reform would be redistricting in favor of competitive Congressional elections. State legislatures have relentlessly redistricted with exactly the opposite purpose: to create the maximum number of districts for their own party while wasting as many votes for the opposite party as possible with super-safe districts. In most districts this means that the primary election is the only contest of any consequence, fostering Tea Party takeovers and other kinds of extremism.

Majority-minority districts have, ironically, reduced partisan competition and thereby failed to serve the interests of the minority voters that they are intended to benefit. Alternative ways to achieve diversity in legislatures include the reservation of seven out of New Zealand's

120 parliamentary seats for Māoris, or the comparable provision in India dating back to the Poona Pact of 1934, which reserves 84 out of the parliament's 543 seats for Untouchables and other scheduled castes. Requiring parties to nominate a diverse field of candidates could also enhance gender and other forms of diversity without diluting democracy's competitive life blood. Making every district accountable to the preferences of voters in the political middle would moderate the stances of American legislative parties by strengthening their leaders at the expense of the shrinking number of outliers. There may be some vulnerable minorities that will not be adequately protected by any electoral arrangements, particularly when ethnic and racial inequalities consistently map onto inequalities of income.

Even in that case, vulnerable minorities would be better served when politicians are given incentives to campaign on political platforms defined by economic interests rather than ethnicity and race. Identity politics tends to breed identity politics, as the scramble to benefit from set-asides and other benefits for scheduled casts in India and the recent rise of white identity politics in the U.S. underscore. African Americans in the U.S. would be better served if both major parties had incentives to compete for their voters, rather than the current status quo in which Democrats can take them for granted and Republicans' main incentive is to find ways to suppress minority turnout.¹⁹

American checks and balances, hailed as antidotes to tyranny, have often fallen prey to powerful groups rather than working to protect weak ones. Most advances that vulnerable minorities have achieved in the U.S. have come through legislatures, not the courts—protestations by lawyers to the contrary notwithstanding.²⁰ Comparative evidence suggests that separation-of-powers systems with independent courts do no better than parliamentary democracy at protecting vulnerable minorities. Indeed, courts have undermined democratic

competition in the U.S. since 1976 by declaring money to be speech protected by the First Amendment to the Constitution, disproportionately empowering the well-heeled to work their will in the American political process.²¹

Plebiscites and referendums undermine rather than enhance democratic accountability. Britain had never had a referendum before Harold Wilson called one in 1975 over remaining in the European Union. In those pre-Thatcherite days it was Labour that was divided over Europe, which was seen less hospitable than Britain to workers' legal protections under UK law. Rather than do the hard work of fighting it out within his party, Wilson put it to a referendum in which Remain beat Leave by 67.2 percent to 32.8 percent. Pleased with himself as a Cheshire cat, Wilson opined in his autobiography: "...It was a matter of some satisfaction that an issue which threatened several times over thirteen years to tear the Labour movement apart had been resolved fairly and finally ... all that had divided us in that great controversy was put behind us."²² Five years later, in 1980, a referendum split the Labour Party nevertheless. When Michael Foot, having retracted his earlier acceptance of the Referendum result and declared that Britain should leave Europe without another referendum, won the leadership contest in 1980 the Gang of Four—Roy Jenkins, David Owen, Shirley Williams, and Bill Rodgers—stormed out to form the Social Democratic Party. Had Dennis Healey not defeated Tony Benn for the Deputy Leadership the exodus would have been a lot larger. Thirty five years later David Cameron made a comparable blunder as the path of least resistance to avoid confronting the Tory rifts over Brexit.

It is the job of political parties to bundle issues, so that voters discount the things that they want against the other things that they also want. American voters support unilateral tax cuts when asked about them in Referendums such as Proposition 13 in California in 1978, limiting

property taxes to one percent of assessed value. The downstream effect was to decimate California's public schools and local government. Polls show that voters will support any tax cut when asked about them in isolation, but not if they are told that a particular cut will be accompanied by losing a popular program such as free medical prescriptions.²³ Then they are forced to discount their preference for lower taxes by their preference of free medical prescriptions.

Parties are better positioned than individual voters to consider the costs and benefits of alternatives when they bundle policies into programs. They must discount everything they propose by everything else they propose in ways that they hope will appeal to as large a swath of the population as possible. The larger the parties the more voters they must consider. This is why both Labour and the Tory parliamentary parties strongly favored remaining in Europe. When they discounted the costs of leaving against everything else they knew most voters wanted, Remain made better sense. Considering one issue at a time in a referendum creates an artificial choice for voters, as in the case of the Brexit vote.

Weakening parties in favor of increasing local and diverse voices has a democratic ring. This has been the dominant response to rising insecurity. Unfortunately, decentralized control also undermines the ability of parties to work out the tradeoffs among policies in a complex world. As E.E. Schattschneider (1942) said three quarters of a century ago, "the condition of the parties is the best possible evidence of the nature of any regime."²⁴ Whatever the system, political parties play a vital role in identifying, competing over, and defending the broad interests of the voting public. Strengthening rather than weakening political parties is democracy's best hope.

Appendix

Data

We collect data on electoral rules, electoral results of legislative elections, and economic performance of the 35 OECD countries for 1945 to 2017.

For every election held democratically in this sample, we record the rules regarding: parliamentary or presidential system, district system (majoritarian, proportional or mixed), district magnitude, PR formula (Danish, Hare, Sainte-Lague, LR-Droop, D'Hondt, LR-Imperiali, Imperiali highest averages), list system (Open or preferential, Closed), PR legal threshold (minimum percentage of votes required for a party to be admitted into parliament), number of districts, and number of seats available or filled.

For every election we record whether the election was scheduled beforehand or called early, the number of rounds, and the turnout for each round. Only France has two rounds, we record the second round whenever a choice needs to be made. In the case of countries that use two different votes with different electoral systems, such as Germany and Mexico, we code the PR one. We record the vote share and seat share obtained by every party elected to parliament, recording which parties were “traditional” and which “non-traditional”, and which parties were right-leaning and which left. Finally, we record the vote share for parties not elected to parliament if categorized as non-traditional (e.g. far right, far left).

In general, we follow standard coding rules such as Carey-Hix (2011)'s.²⁵ We use several sources, including previous publications containing such information, official records (in print and online), and unofficial online sites (e.g. Google, Wikipedia).²⁶ Economic indicators such as the share of employment accounted for the industrial sector, GDP, unemployment and inflation were

obtained from the OECD, the ILO and the World Banks public databases. All variables containing monetary amounts are measured in real terms, and with purchasing power parity when available; when used in estimation, these variables are logged.

Data availability varies with variable. The estimations shown in the text use the maximum number of years and countries for which there is data available for our main variables, namely party fragmentation and the share of employment accounted for the industrial sector. Since some potentially relevant controls are available only for a subset of years and/or countries, in the text we present estimates using only those controls available for the maximum sample.

Research Design

To examine the effect of the fall on industrial jobs on the support for different political factions and party fragmentation we estimate

$$y_{it} = \alpha_i + \lambda_t + \beta \text{IndJobs}_{it-1} + X_{it-1} \Pi + \varepsilon_{it} \quad (1)$$

where i indexes countries where, and t indexes years when, an election was held. Given the data limitations and the year of elections, we are able to consider all 35 OECD but two, South Korea and Latvia, and all years from 1966 until 2015. With the exception of 8 years where no election was held, in every year elections are held in a median of 4.5 countries, with as few as 1 (e.g. 1995) and as many as 13 (in 2011).

Our dependent variable y_{it} will measure an electoral outcome, of which we will consider two sets: (i) share of votes obtained by a political faction (traditional left, traditional right, non-traditional left, non-traditional right) and (ii) the resultant party fragmentation in parliament, as measured by the number of parties and by the classic *effective number of parties* measure, which

basically weights each party by its share of seats.²⁷ Our preferred measure for fragmentation is *effective number of parties*, because it better accounts for actual fragmentation of forces in parliament.²⁸ Our main coefficient of interest is β , which accompanies $IndJobs_{it-1}$ the share of employment that corresponds to the industrial and manufacturing sector. Since some elections are held in the middle of the year and in order to avoid reverse causality issues, we measure $IndJobs_{it-1}$ the year previous to the election. All standard errors are clustered at the year level to correct for non-independence of observations across countries within a year, for example due to global political or economic trends.²⁹

The specification includes country fixed effects α_i and year fixed effects γ_t . The country fixed effects capture any time-invariant differences across countries, such as persistent differences in ideological stigma or in corruption. Year fixed effects control for global trends that affect all countries similarly.

To account for the fact that the timing of election may be endogenous, we restrict the sample to exclude elections that were called ahead of the next scheduled election, about 13% of all elections in our sample. To control for country-specific time-varying unobservables, the specification includes a vector of covariates X_{it-1} , including GDP per capita of the year previous to the election to avoid reverse causality issues, and a collection of controls for the political system valid the year of the election. Political controls include indicator variables for parliamentary, vis-à-vis presidential, system, for closed list systems and for electoral systems with single-member districts (SMDs). We also include a variable we call *Min %* that calculates for each election the minimum percentage of votes within a district that a party requires to secure at least one seat. This variable intends to measure, in top of the SMD dummy, the degree of proportionality of an electoral system, and it is constructed using three pieces of information: the

median district magnitude, the formula used to allocate seats to parties in a proportional system (e.g. D'Hondt) and the PR legal threshold, if one exists.

Finally, in addition to equation (1), for our main variable of interest –fragmentation on the left– we estimate (1) including an interaction of industrial jobs with SMD and Min % in order to test whether the result differs across degrees of proportionality.

To examine the effect of fragmentation of the left on labor policy choice and outcomes, we estimate

$$y_{it+1} = \alpha_i + \lambda_t + \beta \text{LeftFrag}_{it} + \gamma \text{LeftGov}_{it} \times \text{LeftFrag}_{it} + X_{it} \Pi + \varepsilon_{it}$$

(2)

where i indexes countries and t years. Given the data limitations and the year of elections, we are able to consider all 35 OECD countries but South Korea, and all years from 1966 until 2015. Fragmentation changes only at elections, and elections are held in different years for different countries. This staggered nature of elections allows us to employ a differences-in-differences design to test how left fragmentation LeftFrag_{it} has affected policy choice and outcome, when the left was in government (LeftGov_{it}) as opposed to when it was not.

Depending on the country, elections are held in various times of the year, and some countries hold elections every 2 or 3 years. Thus, to focus on the effect of the recent fragmentation change without contaminating the results with future political phenomena, we measure all outcomes in the year posterior to the election, which inevitably limits our analysis to short-run policies.

As part of the differences-in-differences design, equation (2) includes country fixed effects α_i and year fixed effects λ_t . The main identifying assumption in this design is the parallel

trends assumption, which requires that the trajectory of our dependent variable in a country where an election was held would, if it hadn't been held, have been similar to that of a country where no election occurred. Here again we exclude from the sample elections that were called ahead of the next scheduled election, about 13% of all elections in our sample. To account for omitted country-specific time-varying factors, the specification also includes a vector of covariates X_{it} , containing the same covariates as the first research design, together with an indicator variable of whether the governing party or coalition is from the left and a variable that measures the fragmentation of the right parties, which allows us to isolate the effect of left fragmentation alone, as opposed to general parliament fragmentation, on the policy outcome. Results are robust when using the full sample and, for the restricted and full sample, including linear time trends for each country, a parametric way of relaxing the parallel trends assumption allowing each country to have a unique trend over time.

Notes

¹ Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

² Steven Levitsky and Daniel Ziblatt, *How Democracies Die* (New York: Crown Publishing, 2018), David Runciman, *How Democracy Ends* (New York: Basic Books, 2018) and Timothy Snyder, *The Road to Unfreedom: Russia, Europe, America* (New York: Duggan Books, 2018).

³ Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London: George Allen and Unwin, 1943), pp. 250-283.

⁴ E. E. Schattschneider, *Party Government* (New York: Farrar & Rinehart, Inc, 1942), p. 53.

⁵ John Carey and Matthew S. Shugart, “Incentives to cultivate a personal vote: A rank ordering of electoral formulas,” *Electoral Studies*, Vol. 14, No. 4, (December 1995), pp. 417-439.

⁶ Eric C. Chang, Mark Andreas Kayser, Drew A. Linzer and Ronald Rogowski, *Electoral Systems and the Balance of Consumer-Producer Power* (Cambridge University Press, 2011).

⁷ Bruce Cain, John Ferejohn and Morris Fiorina, “The constituency component: A comparison of service in Great Britain and the United States,” *Comparative Political Studies*, Vol. 16, No. 1, (1983), pp. 67-91; Bruce Cain, John Ferejohn and Morris Fiorina, “The constituency service basis of the personal vote for U.S. representatives and members of the British parliament,” *American Political Science Review*, Vol. 78, No. 1, (1984), pp. 110-25.

⁸ Peter A. Swenson, *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (Oxford University Press, 2010); Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century* (Princeton: Princeton University Press, 2019); Torben Iversen and David Soskice, “Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More than Others,” *The American Political Science Review*, Vol. 100, No. 2, (May 2006), pp. 165-181.

For evidence that some countries such as Germany were able to establish rules within the cabinet to inhibit inter-party logrolling, see, for example, Mark Hallerberg and Jurgen von Hagen, “Electoral Institutions, Cabinet Negotiations, and Budget Deficits in the European Union,” NBER Working Paper No. 6341, National Bureau of Economic Research (December 1997); Lanny W. Martin and Georg Vanberg, *Parliaments and Coalitions: The Role of Legislative Institutions in Multiparty Governance* (Oxford University Press, 2011).

⁹ Bingham G. Powell, *Elections as Instruments of Democracy: Majoritarian and Proportional Visions* (Yale University Press, 2000).

¹⁰ Druckman and Warwick (1996) argue that small parties are less likely to be pivotal in government formation—and therefore distorting of legislative politics—when the existence of a large number of small parties reduces the value of their bids to join the government coalition. See Paul V. Warwick and James N. Druckman, “Portfolio Salience and the Proportionality of Payoffs in Coalition Governments,” *British Journal of Political Science*, Vol. 31, No. 4 (October 2001), pp. 627-649. On the other hand, small religious parties in Israel seem to maintain out-sized influence in coalition politics on the dimension of religion and territorial aggrandizement to the extent they all agree on those points.

¹¹ Kathleen Bawn and Frances Rosenbluth, “Short versus Long Coalitions: Electoral Accountability and the Size of the Public Sector,” *American Journal of Political Science*, Vol. 50, No. 2, (April 2006), pp. 251-265; Torsten Persson, Gerard Roland and Guido Tabellini, “Electoral Rules and Government Spending in Parliamentary Democracies,” *Quarterly Journal of Political Science*, Vol. 2, No. 2, (2007), pp. 1-34. On the association between strong parties and economic growth, see, Fernando Bizzarro et. al., “Party Strength and economic growth,” *World Politics*, Vol. 70, No. 2 (April, 2018), pp. 275-320.

¹² Bingham G. Powell, “PR, the Median Voter, and Economic Policy: An Exploration,” Paper presented at the annual meeting of the American Political Science Association, 2002; Martin and Vanberg, *Parliaments and Coalitions*; Mark Hallerberg, Rolf Rainer Strauch, and Jurgen von Hagen, “The Design of Fiscal Rules and Forms of Governance in European Union Countries,” *European Journal of Political Economy*, Vol. 23, No. 2, (June 2009).

¹³ To study the increasingly complicated institutional incentives of a changing labor force, we employed a data set of internal party structure and number of parties in 34 OECD countries from 1970 to 2017. We exploited the arbitrary timing of scheduled elections to gauge within-country variation in party structure over time and across democracies. Note that the countries in the sample with larger numbers of parties (the party fragmentation variable) were mostly in Latin America and Eastern Europe, where economies were less prosperous and stable.

¹⁴ Lars Calmfors and John Driffill, “Bargaining Structure, Corporatism and Macroeconomic Performance,” *Economic Policy*, Vol. 3, No. 6 (April 1988), pp. 13-61; Iversen and Soskice, “Electoral Institutions and the Politics of Coalitions.”

¹⁵ Gary W. Cox and Mathew D. McCubbins, *Setting the Agenda: Responsible Party Government in the U.S. House of Representatives* (Cambridge University Press, 2005).

¹⁶ Sarah Binder, *Stalemate: Causes and Consequences of Legislative Gridlock* (Washington, DC: Brookings Institution Press, 2003).

¹⁷ “Election 2015: What difference would proportional representation have made?” BBC News, May 9, 2015, <https://www.bbc.com/news/election-2015-32601281>

¹⁸ Frances Rosenbluth and Ian Shapiro, *Responsible Parties, Saving Democracy from Itself* (Yale University Press, 2018), pp. 62-127.

¹⁹ *Ibid.*, pp. 42-61.

²⁰ Gerald N. Rosenberg, *The Hollow Hope: Can Courts Bring About Social Change*, 2nd ed (Chicago: University of Chicago Press, 2008).

²¹ Ian Shapiro, *Politics against Domination* (Cambridge: Harvard University Press, 2016), pp. 93-102.

²² Harold Wilson, *The Final Term: The Labour Government 1974-76* (London: Weidenfield & Nicholson, 1979), p. 109.

²³ Mayling Birney, Ian Shapiro, and Michael Graetz, “The Elite Uses of Public Opinion: Lessons from the Estate Tax Repeal,” in *Divide and Deal: The Politics of Distribution in Democracies*, eds. Ian Shapiro, Peter Swenson and Daniela Donno (New York: New York University Press, 2008), pp. 298-340.

²⁴ Schattschneider, *Party Government*.

²⁵ John M. Carey and Simon Hix, “The Electoral Sweet Spot: Low-Magnitude Proportional Electoral Systems,” *The American Political Science Review*, Vol. 55, No. 2 (April 2011), pp. 383-397.

²⁶ Ibid.; Cesi Cruz, Philip Keefer, and Carlos Scartascini, *The Database of Political Institutions 2015 (DPI 2015)*, (Inter-American Development Bank, 2016).

²⁷ Formally, effective number of parties is equal to one over the sum of the shares of each party squared, where shares are measured in decimals (not percentage).

²⁸ We wish to use a measure that captures the fact that a parliament consisting of four parties with equal share of seats is a far more “fragmented” than one consisting of four parties with shares 45%, 45%, 5% and 5%. Number of parties would indicate that both parliaments have 4 parties, while *effective number of parties* would indicate that the first has 4 parties while the second 2.44, exactly what intuition calls for.

²⁹ Findings are similar when clustering by country. We use year clusters as preferred method since the number of countries (33) is low (lower than 42 years), and we worry that our standard error estimates may be biased with small number of clusters.