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Do Coalition Governments Bring Economic Stability?[1]

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Coalition Politics and Economic Development: Credibility and the Strength of Weak Governments. By Irfan Nooruddin. New York: Cambridge University Press, 2011. 266 pp., $93.00 hardcover (ISBN-13: 978-0-521-19140-1).

In *Coalition Politics and Economic Development,* Irfan Nooruddin speaks to the seminal puzzle that Barry Weingast posed: ''The fundamental political dilemma forces us to ask what form of political system is required so that a viable, private market economy is a *stable* policy choice of that political system'' (Weingast 1995, p. 2, emphasis mine). In the Weingast thesis, ''market preserving federalism,'' an apparently depoliticized form of government, was proposed as a solution to the credible commitment dilemma. Nooruddin roots for ''more democracy'' instead and argues that ''countries in which policymaking authority is diffused across political institutions controlled by actors responsive to different societal constituencies are better able to make credible commitments to long-term policy stability'' (p. 3). The causal mechanism works as follows: minority or coalition governments entail diffusion of policymaking authority among multiple parties representing ''diverse societal preferences'' (p. 4), which, in turn, prevents governments from making arbitrary policy choices, bolsters investor confidence, ensures longevity of investments, and attenuates growth rate volatility (p. 55).

The evidence and analyses that the author presents build upon a number of empirical innovations. For instance, growth rate volatility is usually calculated as the standard deviation of economic growth in a given period of time. Considering this unsatisfactory, Nooruddin devises a new measure (using the residuals from the autoregressive process of growth in GDP *per capita*), which accounts for baseline economic growth, temporal differences in average economic growth, and for the nature and extent of fluctuations over time. Moreover, the author measures growth rate volatility in three different time panels—the entire period (1964–2000) for which data are available, in increments of 10 years over the same period, and in increments of 5 years over the same period. Each of the explanatory variables is also measured in corresponding time panels.

Based on the political economy of growth framework presented in chapter 2, the author tests hypotheses related to the effects that competing sources of government credibility have on growth rate volatility. In addition to the author's favored mechanism of the minority or coalition governments, other important measures include the divided governments in presidential democracies, independent judiciaries, federalism, central bank independence, and the binding legislature in non-democracies. Empirical analyses presented in chapter 3 show that controlling for other frequently analyzed political variables (democracy and political instability) and economic factors (trade, financial sector and capital flows, and macroeconomic conditions and policy), ''minority and coalition

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governments in parliamentary democracies emerge as the most consistent dampener of volatility'' (p. 84). The author also uses the same set of explanatory variables to investigate variation in national economic growth and shows convincingly that the economic stability that minority or coalition governments achieve does not come at the cost of higher rates of economic growth.

In an attempt to illuminate the reader on the causal mechanisms leading to the outcomes analyzed above, the author combines two data sets from the World Bank's Business Enterprise Surveys in chapter 4. One data set, based on the data of about 11,000 firms located in 38 countries, shows that the firms located in countries ruled by a coalition or minority government experience significantly lower uncertainty regarding regulatory policy environment. That this perceived policy stability leads to higher investments is shown using data on 5000 firms located across 12 countries. Tests show that, controlling for relevant variables, the lower level of uncertainty firms perceive regarding regulatory policy environment is associated with greater investments in new capacity. The presence of coalition governments is associated with a significant increase in the level of domestic savings and reductions in capital flights. These results also hold when the models are tested only for the sample of countries that stayed democratic for at least half the duration of this research and analysis.

In chapter 5, Nooruddin makes a transition from cross-national empirical analysis to an analysis of variation across different states in India, which has enjoyed high rates of growth during a period of political fragmentation dominated by coalition governments. India's federal polity and the diverse economies across its states offer a good test case for Nooruddin's arguments. Empirical tests suggest that the firms located in states governed by the minority or coalition governments are far less likely to perceive economic and regulatory policy uncertainty in comparison to similar firms located in states without coalition governments. A second set of empirical tests shows the correlations between the presence of coalition governments and the firms' decisions to invest in research and development.

The empirical analyses presented in chapters 3 through 5 help the author make a robust case in favor of the hypothesized relationship between the presence of minority coalition governments and growth rate stability. The combination of macroeconomic data with the firm-level microeconomic data is particularly impressive. Considering the complexity of the causal mechanisms, which link coalition governments with economic stability, the author employs a combination of rigorous empirical analyses and in-depth case analyses. However, future research by Nooruddin and others could improve on the application of case studies for strengthening the causal arguments implied in the empirical chapters.

For instance, in the India chapter, the author argues, discussing the causal mechanism, ''If the *diktats* of coalition politics are to be blamed for slowing the reform process, they *must* also be praised for preventing its reversal'' (p. 145, second emphasis mine). Notwithstanding the forceful assertion above, beyond the a priori theoretical assertions about the potential that coalition governments hold in promoting policy moderation and compromises, the reader does not get a clear sense of the manner in which the theoretical prediction bears out in real life. The author comes close to providing a credible causal mechanism by suggesting that ''coalition dharma''—which one can roughly translate to the norms of coalition politics—acts as a laboratory for training parties and their leaders in responsible oppositional politics. Similarly, the author suggests that coalition politics has strengthened other institutions such as the presidency, the election commission, and the courts. The case analyses could have been used to amplify these

and other effects to demonstrate the specific effects that coalition politics has on enhancing a coalition government's policy credibility.

Similarly, in the Italian case, instead of demonstrating specific instances in which coalition politics contributed to policy stability, it is merely stated as a conclusion. The reader is left wondering if, instead of the coalition governments, it is the ideological centralism of the dominant Christian Democratic Party, which is the main driver of policy stability in Italy. As it turns out, the case analyses of India and Spain reinforce this possibility. The Indian case demonstrates the convergence of the main national parties, the Congress and the Bhartiya Janata Party (BJP), in favor of a ''strong consensus for weak reforms'' on questions of economic policies (p. 127). Moreover, the dangers of economic policy alteration are ''mitigated by the fact that both major parties in Spain are quite similar in their policy preferences, and so policy changes are not dramatic but rather gradual'' (p. 156).

A dispassionate reading of the empirical as well as qualitative evidence presented in the book therefore renders plausible an alternate hypothesis: The consistent reduction in growth rate volatility the world over (see figure 3.3, p. 69) can be attributed to the centerward shift of key national political parties, in particular with reference to economic policymaking. The centrist policy positions allow dominant parties to attract coalition partners with divergent policy positions, while also enabling them (as opposed to, say, the ''leftist'' parties) to convince the interested investors of long-term policy stability. In this scenario, instead of the hypothesized effects of minority or coalition governments, the ascendance of centrist parties seems to be the key variable explaining the coexistence of coalition governments and long-term investments. This argument is likely to hold for firm-level outcomes and in the cross-national analyses.

In the case study chapters, the author could have focused on teasing out these rival causal mechanisms that can potentially explain the correlations observed in the empirical analysis. Instead, the author shifts the conceptual goal posts from time to time, for instance, in suggesting that ''the case of Spain allows for a clear assessment of the differences between dictatorship and democracy, and the importance of political competition for understanding national economic performance.'' But the comparison of democracy and dictatorship and the consideration of political competition are somewhat less exciting conceptual questions as compared to the book's core argument about the effects of minority or coalition governments. These analytical shifts become somewhat volatile in the context of Botswana, which the author argues ''exemplifies *the mixed virtues of concentrated power even in democratic systems*, and the advantages of growing competitiveness in the political system'' (p. 165, emphasis mine). Such conclusions hurt the force of argument in favor of ''more'' and ''messy'' democracies, in which the simultaneous ''contestation and sharing of power'' (p. 46) contribute to greater goods.

Notwithstanding the above critique, this book provides a model for building robust empirical analyses. In addition to the core thesis of the book and the plausible role of centrist parties discussed above, the book offers several other exciting leads: What might be the dynamic political economic consequences of the increasing popularity of coalition governments? For instance, how might coalition governments affect the ruling parties' engagement with opposition parties? What might be the distributional consequences of the increasing ascendance of centrist parties and coalition governments? Irfan Nooruddin's book offers a provocative thesis for the students of political science and political economy interested in taking up a mixed-methods research program aimed at further improving our understanding of the political economy of development. The book should also ignite debates about the most fruitful ways in which strong empirical analyses can be combined with in-depth qualitative analyses, an

approach which is becoming increasingly popular in scholarly writings as well as in the classrooms.

Reference

Weingast, Barry R. (1995) The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development. *Journal of Law, Economics and Organization* 11: 1–31.