Presidential Regimes and the Economy

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1. Introduction

The amendments to Turkey's constitution that will be put to referendum in the coming months - following the vote in the Parliament on 21 January 2017 – entail a switch from the current parliamentary system to an alternative presidential regime. In view of the significant challenges faced by the Turkish economy at present, we argue that understanding the economic implications of presidential as opposed to parliamentary systems should form a key part of the evaluations of the proposed regime change. In this piece, we attempt to contribute to this debate by exploring the role of the form of government on a country's economic performance, drawing on the relevant research in the existing literature.

2. Presidentialism versus parliamentary regimes

Comparative analyses of presidential versus parliamentary systems go as far back as the second half of the 19th century. In their leading analyses of the pros and cons of the two regimes, both Walter Bagehot and Woodrow Wilson argued for the primacy of parliamentary systems over presidential regimes.

It is widely agreed that the only presidential regime that has exhibited constitutional continuity has been that of the United States of America. France and Finland, the other two regimes featuring some elements of presidential systems that are also stable democracies, are both mixed (semi-presidential) regimes.

It should be noted that parliamentary regimes too have exhibited instability, however, political crises are often resolved without them turning into regime crises under these regimes. Indeed, parliamentary democracies have been better at crisis resolution even in highly polarized, divided societies. India is often used as a case in point in this regard (Linz, 1985).

Is this a coincidence or an outcome of the functioning of the two systems? The related debate in the existing literature that was revived by the proliferation of independent nations in Eastern Europe following the collapse of the Soviet Union has concluded that the instability associated with presidentialism is the by-product of the regime (Linz, 1994).

Why do presidential regimes create instability? The following have frequently been offered as explanations; 1) the clear distinction between the winners and losers in presidential elections and the fact that the gains and the losses prevail for the entire presidential term; 2) the competing claims to legitimacy of both the president and the assembly and hence the potential friction between the two; 3) the rigidity created by the fixed presidential term and; 4) the too-powerful nature of the presidential office.

3. Forms of government and the economy

The debate on whether presidentialism is superior to parliamentary systems has shifted in focus towards the economic effects of the two regimes from the early 2000s. Existing research explores the implications of the form of government on three aspects of policy.

i. On public spending and its composition

In their seminal paper, Persson ve Tabellini (2003) presented the first systematic analysis of presidential versus parliamentary regimes using cross-country data from 85 countries for the period 1960-1998. Although they consider the effect of the regime on a rich set of macroeconomic variables, their main focus is on public spending, the findings of which are reported in Table 1.

The results reported in Table 1 are clear; both public and the welfare spending as a proportion of national income are lower under presidential regimes, as compared with those under parliamentary systems. As a result, budget deficits are also observed to be lower.

Table 1. Public spending, its composition and the budget deficit (as a proportion of national income)

	Presidential	*Parliamentary*
Public spending/national income	18.7	30.1
Welfare spending/ national income	4.4	9.0
Budget deficit/national income	2.4	3.3

Source: Persson ve Tabellini (2003), average values across 1960-1998. National income is the GDP, the gross domestic product.

Subsequent related work also confirmed the finding that presidential systems produce lower total national incomes as well as lower welfare spending as a ratio of national income (see, for example, Gregorini ve Longoni, 2009; Rockey, 2012).

ii. On political, economic and human development

In one of the most comprehensive studies on presidential regimes, Gerring *et al.* (2009) explore the implications of a given form of government against a wide range of political, economic and human development indicators. They use an extensive data set consisting of 124 countries covering the period 1951-2000.

Table 2 presents their findings where the outcomes are reported as values under parliamentary systems, compared to those under presidential ones.

Results presented in the upper part of Table 2 support the above mentioned arguments that parliamentary regimes are more effective in delivering democratic stability and effective governance.

Similarly, findings reported in the centre and the bottom half of the table point to the clear dominance of parliamentary regimes with respect to economic development. Among the countries examined, those under parliamentary democracies appeared to have managed to create conditions more conducive to investment as well as a higher volume of external trade, leading to higher per capita national income. Similarly, outcomes across human development indicators such as life expectancy and infant mortality also point to the superiority of parliamentary systems.

Table 2. Political, economic and human development indicators

Indicators	**Under parliamentary regimes (compared to those under presidential regimes)**
Political development	
Corruption index	Lower
Effective governance index	Higher
Quality of bureaucracy index	Higher
Political stability	Higher
Economic development	
Per capita national income	Higher
Telephone lines	Higher (45%)
External trade	Higher 30%)
Investment grade	Higher (by 6 points out of 100)
Productivity	Higher
Human development	
Life expectancy	Higher (2%)
Infant mortality	Lower (23%)
Literacy rate	Same

Note. Magnitudes reported in the table are calculated as the impact on the 1960-2000 averages from following a particular regime for 50 years during 1951-2000 (Gerring *et al*. 2009, p.350). The findings on productivity are taken from Persson ve Tabellini (2003).

Table 2 clearly indicates that the relative improvements achieved under parliamentary regimes with respect to both economic and human development are sizable.

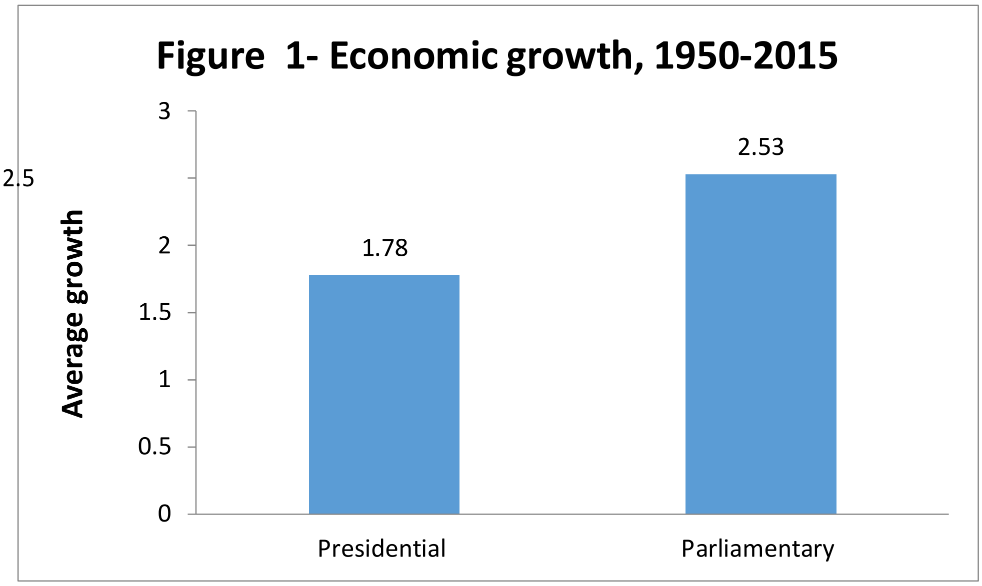
iii. On macroeconomic performance

We now turn to the implications of regime choice for macroeconomic performance. McManus and Ozkan (2016) examine how the form of government impacts a set of macroeconomic indicators utilizing data from 119 countries, over the period 1950-

2015. (Figure A1 in the Appendix presents the underlying classification of regimes into presidential, semi-presidential and parliamentary regimes).

Figures 1-4 present the data on economic growth, per capita income, inflation and income inequality under presidential and parliamentary regimes in the sample countries, across 1950-2015.

These plots echo the results established above; in each of these four outcomes, presidential regimes produce inferior outcomes. More specifically, parliamentary systems are associated with better macroeconomic performance; with higher growth, higher per capita income, lower inflation as well as lower income inequality.



Source: McManus and Ozkan (2016), 1950-2015, based on data from 89 countries and the Persson-Tabellini (2003) regime classification. The same convention is used in Figures 2-4. Similar results are found by using the Bormann and Golder (2013) classification.

Source: *World Bank.*

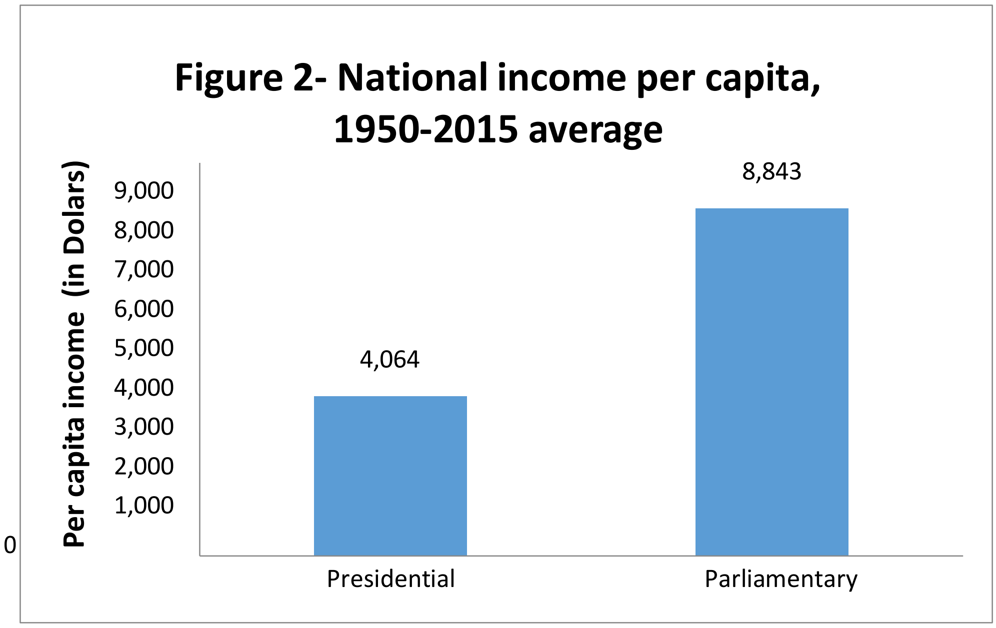


Figure 2- National income per capita, 1950-2015 average

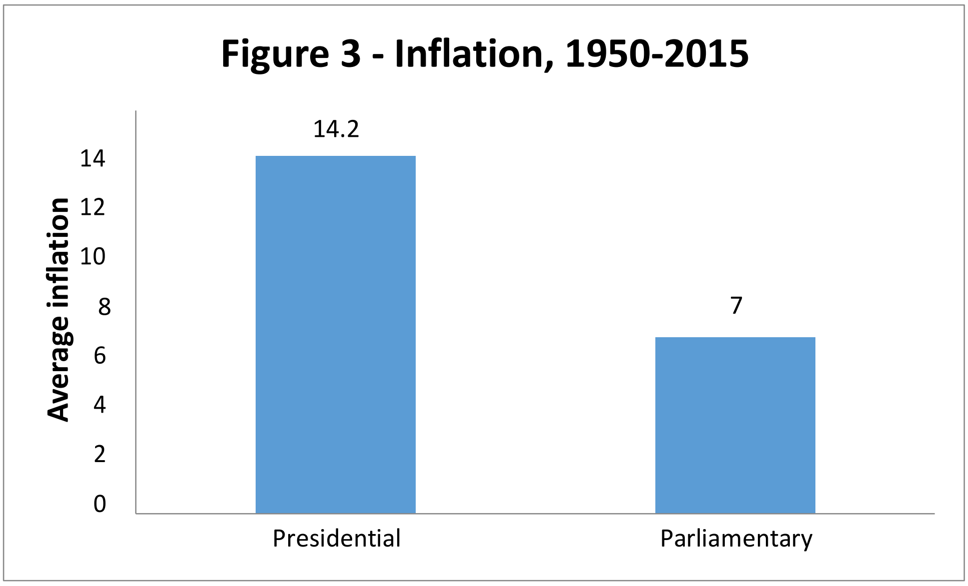
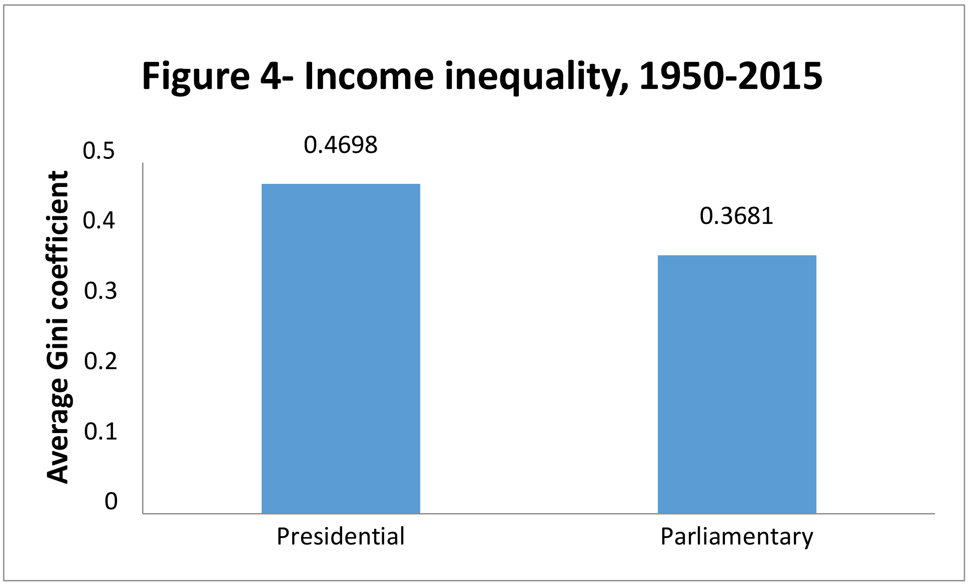


Figure 3 - Inflation, 1950-2015

Source: Inflation outcomes are calculated on the basis of GDP Deflator; data are from the *World Bank* database.



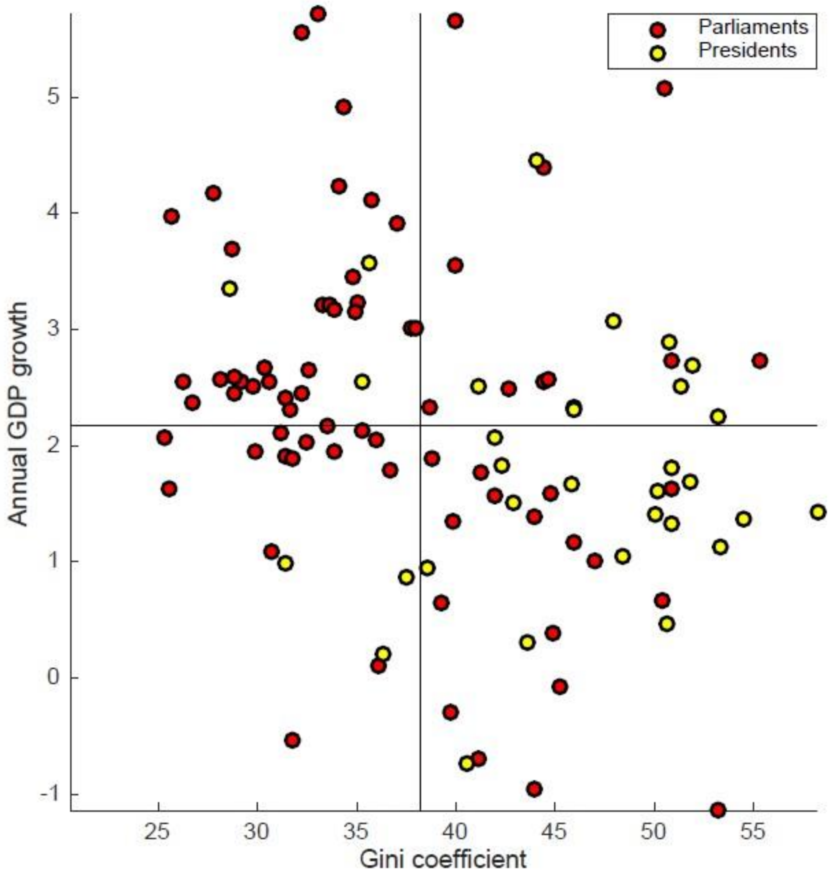
Note. Gini coefficient is the most widely used income inequality measure; it varies between 0 and 1, corresponding to the most equal and the most unequal income distributions, respectively.

To further explore the consequences of the two regimes on the economy, Figure 5 below combines the two key performance indicators - economic growth and income distribution.

In Figure 5, economic growth is plotted against income inequality, measured by the Gini coefficient. The average values of economic growth (vertical) and income inequality (horizontal) divide the plot into four quarters, where the upper left quarter contains above-average income and below-average inequality. In contrast, the bottom right corner contains those with below-average growth and above-average inequality.

As is clear from Figure 5, the great majority of the countries that are positioned in the upper left quarter, with the best combination of high growth and low inequality, are parliamentary regimes (91%).

Figure 5. Economic growth and income distribution under presidential and parliamentary regimes



Outcomes reported above on the macroeconomic consequences are based on sample averages. To systematically examine the link between the form of government and macroeconomic outcomes, McManus and Ozkan (2016) also estimate a set of formal models incorporating other potential determinants of each outcome; the levels and the volatilities of growth and inflation as well as income inequality. Their analysis contains a number of alternative determinants, various estimation periods, and a large set of robustness checks, as reported in Table 3.

Table 3. Macroeconomic performance

Macroeconomic performance indicators	Under parliamentary regimes (relative to presidential ones)
Annual economic growth	Higher (between 0.6 and 1.2%)
Inflation	Lower (6%)
Volatility of inflation	Lower (between 4 and 9%)
Income inequality (Gini coefficient)	Lower (between 16 and 20%)

Source: McManus and Ozkan (2016). Results are based on the data from 119 countries for the period, 1950-2015, based on the Generalised Least Squares (GLS) estimation method.

Tablo 3 clearly indicates that the formal estimation results confirm the findings from the simple plots above. Compared with parliamentary regimes, presidential regimes are seen to generate lower growth, higher and more volatile inflation, and more unequal income distribution.

Moreover, it is clear that the unfavourable impact of presidentialism on the economy is substantial. For example, in parliamentary regimes output growth is found to be higher than that in presidential ones by between 0.6 and 1.2 percentage points. Similarly, inflation is on average six percentage points lower under parliamentary systems than under presidential regimes. The difference in distributional outcomes is even more pronounced; income inequality is between 16 to 20 per cent worse under presidential systems.

4. When does the presidential regime do worst for the economy?

Having established the unfavourable implications of presidential regimes, a key question is whether there are circumstances under which these results do not apply.

McManus and Ozkan (2016) extend their analysis to explore this issue by incorporating a set of factors that are derived from the relevant debate in political science literature. Overall, the existing debate on the form of government suggests that presidential systems may deliver better outcomes in societies where the rule of law is respected; where there is a clear separation of powers; where there are inclusive institutions, particularly in well-established democracies with strong civil rights and individual liberties. McManus and Ozkan (2016) use these factors as interaction variables that are likely to influence the impact of presidential and parliamentary regimes on economic outcomes. Findings of this analysis are reported in Table 4.

Table 4. Political and institutional factors

Factors	***The impact of a presidential system on the economy***
Rule of law	Reduces the unfavourable impact (growth)
Quality of democracy	Reduces the unfavourable impact (inflation and the volatility of inflation)
Age of democracy	Reduces the unfavourable impact (inflation and the volatility of inflation)
Inclusive institutions	Reduces the unfavourable impact (volatility of growth)
Separation of powers	Reduces the unfavourable impact (inflation and income inequality)

Source. Data on the age and the quality of democracy are taken from the *Polity IV Project* database; indicators of the rule of law are taken from *Worldwide Governance Indicators*; data on the quality of institutions and the separation of powers are taken from POLCON database (McManus and Ozkan, 2016, p.25). Reported results are from the Generalised Least Squares (GLS) estimation method, as above.

In Table 4, the first column lists the indicators of political and institutional quality, and the second column reports how a rise in each indicator (defined as a favourable change) impacts macroeconomic outcomes. The specific outcome affected by each factor is given in brackets.

It follows from Table 4 that the unfavourable implications of presidential regimes on the economy diminish in societies where there is an improvement in the above specified set of political and institutional factors. However, it is also clear that in none of the cases examined above, are the negative effects of presidential regimes fully prevented. Hence, even in societies with improved institutions presidential regimes still perform less well than parliamentary ones.

5. Conclusions

Existing studies clearly establish that presidential regimes produce inferior outcomes across a wide range of political, economic and human development indicators. For example, it is shown that parliamentary regimes routinely achieve a better investment environment, higher external trade, higher growth, higher per capita income, lower inflation, higher welfare spending, and lower income inequality. In addition, presidential regimes are observed to feature both higher corruption and lower human development, especially in less developed countries.

Importantly, presidential regimes are found to be particularly harmful for societies where democratic institutions are not well-established; where the separation of powers is weak; where inclusive institutions are lacking and where the rule of law is not well-respected.

It is, therefore, not surprising that the expert opinion on presidential regimes is overwhelmingly unfavourable (see, for example, Besley, 2015).

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Appendix

Figure A1- Presidential, parliamentary and semi-presidential regimes in the world