

# **In Opposition to the Opposition**

## **How the Opposition Structure Influences Government Spending - Evidence from OECD countries**

Zsuzsanna B. Magyar

University of California, Los Angeles

### **Introduction**

In this paper I hypothesize that the structure of the opposition influences how the government governs. I argue that if there is a unified opposition, big government party(ies) realize that their best chance of participating in the next government is to keep all of their current allies on their side. This is because a unified opposition poses a credible threat to poach smaller government parties to form a new coalition that excludes the big party(ies) in the current government. Therefore, it behooves the current government leaders to (pre-emptively) outbid such overtures by pandering to their small partners' most preferred policies. One manifestation of this outbidding should be increased government spending. In this paper I show empirically that when there is a successful pre-electoral coalition in the opposition, government spending increases.

This finding challenges the existing literature on two counts. First, it goes against the conventional wisdom that we have to focus only on the government parties if we want to predict policies. I argue that the government parties consider

the strategic environment they are in at all times, and if the opposition limits their possibilities to get into the government once again, they spend more. Second, it may be proof that coalition parties can cooperate with each other over multiple elections even when they lose. For a long time coalitions were considered to be a form of one-shot cooperation between parties. My results show that some coalitions may be considered to be a long alliance by all political actors. Because of this I suggest, that political science should broaden the definition of relevant actors in a party system to include permanent coalitions apart from parties.

In this paper, first, I discuss the existing literature on how different party systems influence government spending and how coalitions fit into this picture. Second, I propose a theory about the power of coalitions in the opposition to influence this spending. Third, I present empirical evidence with data from 17 OECD (Organization for Economic Cooperation and Development) countries from 1970 to 1998, that demonstrates that the spending of the government is influenced by the strength of the biggest coalition that was running as a pre-electoral coalition in the previous election. My result indicates that a unified opposition in a fragmented legislature may increase total government spending by up to 5.5%. Third, I briefly address estimation issues and robustness checks to show that the results withstand several specifications. The final part concludes, and I address how this research can evolve from here.

## **Literature review**

The role of the party system on spending has been indirectly addressed in the existing political science literature. Party systems are considered more or less to

be the result of the electoral system of the country along with the cleavages that exist in the society. Countries with permissive electoral systems and heterogeneous societies tend to have fragmented party systems (Cox 1997; Duverger 1951; Lijphart 1994; Taagepera and Shugart 1993; Riker 1982). Because the mapping between the electoral system and the party system is quite close, often political scientists operationalize the party system with the electoral system. An example for this is the literature on government spending. Empirical evidence shows that under PR (proportional representation) electoral systems, governments spend more than under majoritarian electoral systems (Iversen and Soskice 2006; Roubini and Sachs 1989; Perrson and Tabellini 2004). There are several possible mechanisms that could explain this finding, many based on the different party structures under different electoral systems. One line of argument at first glance explains this difference directly with the elections. Perrson and Tabellini (2004) argue that the people punish individual candidates when there is a deficit. In majoritarian electoral systems, voters can hold their individual representatives accountable hence the representatives spend less. Hallerberg (2004) argues in a similar way, but he concludes that the party system can be important beyond the electoral system. He claims that in countries where there are a lot of parties and governments form idiosyncratically or where the electoral system is not competitive, there is no incentive for the government to exercise fiscal prudence. On the other hand, in countries that have highly competitive electoral systems and well established alternating single party or coalition governments there is less spending .

Another type of theory that explains the gap in spending levels considers the government structure under PR in contrast to the ones under majoritarian electoral systems. In majoritarian electoral systems often there are single party

majoritarian governments, while under PR often there are coalition governments. Beyond the accountability issues that Halleberg (2004) addresses, coalition governments may spend more for various reasons. Roubini and Sachs (1989 a; b) argue that coalition governments are more vulnerable to budget deficits because divided governments cannot agree on how to reduce the budget. Bawn and Rosenbluth (2006) find that governments that consist of more parties spend more than governments that have fewer parties. They theorize that multiparty coalition governments cater to each of the interest groups in their coalition .

Another line of thinking argues that under different electoral systems, different party systems will emerge that limit the coalitions that the societal classes can form. Iversen and Soskice claim that in majoritarian electoral systems the middle class has to be in a permanent coalition with the rich or the poor (because there are only two parties). The middle class prefers the rich, as they do not want to be taxed by the poor. In contrast, under PR, the middle class can have its own party which will be the pivotal party. Under these circumstances the middle class prefers a coalition with the poor. Should the poor want to tax them they can always leave. Because of this in PR the middle class and the poor tax the rich and can redistribute the money among themselves.

My theory includes the logic that parties (or groups) consider their coalition possibilities even when they govern. I argue however, that we can do better than separate the countries based on their electoral systems. If we want to know how the party system affects government policies we can investigate how coalitions influence policies. Permanent coalitions can exist under all electoral systems and they can help us separate the party system effect from the electoral system effect.

The political science literature has advanced to the point to consider coali-

tions more than the aggregate of their party parts. First, coalitions were treated as a form short strategic alliance between parties that formed because individually no party was able to have a legislative majority. Early research confirmed that coalitions are more likely to form between parties close in the ideological spectrum (Axelrod 1970; de Swaan 1973) but beyond that political scientists agreed that the votes that parties gained in a given election mattered the most in their chances to get into the government (Gamson 1962; Riker 1962). The empirical finding that coalition governments fail faster than single party governments, supported the theory that parties continue to compete even in a government coalition (Müller and Strøm 2000). Several theories thus problematized how the competing partners can govern at all. Laver and Shepsle (1990) argue that coalitions do not have a joint policy, each party nominates their ministers and they execute the policy of their party. In contrast, Thies (2001) argues that coalition governments can have a common policy. The parties arrange different mechanisms to monitor the coalition agreement. This theory opens up the possibility that coalitions may be more than the combination of parts of policies of different parties. However, even here, coalition parties compete, and the parties have to spend time, energy, and human resources to avoid their partners cheating.

Golder (2006) shows that coalitions may form in anticipation of the electoral results before the elections. She shows that by cooperating, some of the parties increase the seat share that they gain in the elections. She argues that the parties may form a coalition to compete against a strong party or coalition whose policy is very distant from them. This shows that coalitions do not necessarily form because they need to govern, a coalition may be an electoral tool in the hands of parties. However, Golder still assumes that coalition formation is a one-shot game

and the parties reevaluate the advantage of their partnership before each round of elections. I propose that the natural extension of this theory is to consider that some of these parties that do not win in an election as a pre-electoral coalition may continue their cooperation in the opposition in the hopes of running against the government party(ies) in the following elections. In addition, if the opposition is already gearing up for the next election, I argue that the government may change the way how they govern in anticipation of the next election.

## **Theory**

The party system as we have seen can influence government policies in several ways. First, the government itself is the outcome of the party system, in countries with fragmented party systems coalition governments are the norm. Second, there can be a certain universalism in the legislature when all of the parties influence the policy whether they are in the government or in the opposition (Mukherjee 2003). Third, the government parties could react to the competition they face from the other parties. Previous political science literature has found mixed evidence on how the number of parties influences the government. Bawn and Rosenbluth (2006) for instance find that effective number of legislative parties (ENLP) has no influence on the budget, while Mukherjee (2003) finds (without controls) that countries with more parties spend more. I argue however, that this may be the result of the fact that we have gotten the variable wrong.

The absence of the emphasis in the literature on the opposition, and its influence on the budget is understandable given that in the parliamentary system, the governing parties are the only ones that can influence policy. However, in

this paper I argue that the parties in the government have to take into account the coalition structure in the opposition when they consider their own chances for participating in the next government. I argue that it is worthwhile for some parties to cooperate while they are in the opposition, and the parties may have an incentive to be in a long term coalition. The parties in these coalitions do not have an intention to merge with each other but they are not free agents, and do not change their partners easily. For this reason, it is possible that the other parties in the party system consider them as a unit. If this is the case in our theories which have the party system as an independent variable we should treat these as a unit as well.

Let us consider a five party legislature with parties A, B, C, D, and E. A two party government could be formed in 10 different ways [AB, AC, AD, AE, BC, BD, BE, CD, CE, and DE].<sup>1</sup> Let us assume that after an election a government coalition forms consisting of parties A and B. Now each government party can expect to be in the government after the next election with a probability of 2/5. In contrast, let us consider that there are two parties that cooperate in the opposition (DE) and they send strong signals they want to cooperate in the next elections. Now I take parties and coalitions as units and we can see how many two unit governments can be formed. We can see that the number of governments that can may be formed after the next election is limited to 6 [AB, AC, BC, A(DE), B(DE), C(DE)]. At first glance we could argue that if there are only six ways to

---

<sup>1</sup> In reality there is no mathematical possibility that all of these coalitions could be majority coalitions. First, the logic would apply to minority coalitions as well. Minority coalitions would have to be supported by some outside party(ies) which could also be problematic if the opposition is unified. Second, with this small exercise I just want to demonstrate the logic why some parties may decide to cooperate in opposition even without having an estimate about the possible election results. Note that the logic would work with all possible coalitions as well, not only with two party/unit coalitions.

form the government the chance of every single party or coalition to be in the government is bigger than if there were ten ways to form a government ( $2/5$  in the first case  $1/2$  in the second case). However, let us suppose that our government AB rapidly loses popularity. Party A and Party B both think that the voters will punish them for the action of their coalition partners. They promise to the voters that no matter what they will not enter into the government together. If this is the case, parties A and B in both cases will have a  $1/3$  chance to be in the next government (an 18% decrease compared to the no opposition coalition situation and a 34% decrease from the opposition coalition situation). However, the parties in the opposition coalition DE increased their chances to be in the new government from 33% (3 in 9) to 60% (3 in 5).

The real question is not why opposition coalitions form but why would not all the parties in the opposition form a coalition ready to change the government. The answer for this question probably lies in the possibility that without formal ties it is easier for smaller parties (or equally sized parties) to remain pivotal in the political system. Often in a coalition the parties are not equal in size. Often, there is one large, senior partner and one or more smaller junior partners (Golder 2006). This means that the situation can be very dangerous for the biggest government party: the strongest party in the government coalition could have an even smaller chance in getting into a future government coalition if the other parties try to build minimal winning coalitions (Riker 1962). On the one hand, having a unified opposition can make the bigger government party's position difficult in two ways. Their coalition partners may have credible outside options if there is a big coalition organizing in the opposition. In addition, some of the other small parties may have already committed to an alternative government so if the coalition collapses they

cannot find a new partner. On the other hand, this may be very good for smaller parties within the government. If a government party finds that they are pivotal for their coalition and a potential opposition coalition they can extract their wishes from their coalition partner.

## **Empirical Test**

I argue that there are parties that strategize with each other in the opposition, and are preparing to govern together in the next electoral cycle. Empirically, it is hard to know whether there are opposition coalitions in a given country. Whereas government coalitions make coalition agreements, create coalition cabinets, and advertise their agreements or their disagreements in the media, opposition coalitions are not forced to maintain joint institutions and they are not in the spotlight of the media. Because measuring the coalitions in the opposition directly is difficult, I come up with an alternative measure that I believe is correlated with the idea to test my hypothesis in a simple way.

I propose that the parties that continue cooperating while they are in opposition will most likely compete together in the next election and, conversely, that parties that compete together in an election are the most likely to cooperate in the opposition as well. Because of the hypothesized continuous interaction my focal independent variable is the percentage vote share that the biggest opposition pre-election coalition that did not get into the government received in the previous election. I use the vote share of the coalition to account for the strength of the coalition in the opposition.<sup>2</sup>

---

<sup>2</sup> My variable is based on the data in Golder 2006. Some of the pre-electoral coalitions in the dataset are rather small. Most probably these coalitions are formed to get into the

I believe that on several levels this variable measures the concept in focus: the pre-electoral coalitions are publicized so both the voters and the politicians may be more likely to perceive the participating parties as allies. Beyond perception, the parties that previously formed a pre-electoral coalition had to build institutions and had to form personal connections with each other that can easily continue in the opposition. This means that there is a lower cost for these parties to coordinate in the opposition than any other combination of parties, so I argue that these parties have the highest probability to coordinate. Empirically if we look at the data we can see that pre-electoral coalitions often re-form for consecutive elections which can be because they have coordinated all along.

On the other hand, it is possible that my variable is noisy, maybe very noisy. It is possible that it is only a subset of all pre-electoral coalitions continue to coordinate beyond the elections. However, if this is the case and most of the coalitions stop coordinating after the elections I will not find any effect in my study. I believe that in the worst case scenario this independent variable will give me a conservative estimate of the impact of the opposition coalitions.<sup>3</sup>

I test the hypothesis on data from 17 European OECD countries from 1970 to 1998.<sup>4</sup> These countries have various electoral systems and party systems. While some of these countries did not have coalition governments during this entire period, in most of them there were some pre-electoral coalitions running in the

---

legislature by passing the electoral threshold that the country mandates (Golder 2006). I do not believe that these tiny alliances could have the effect I am interested in.

<sup>3</sup>It is also possible that I am measuring a general competitiveness during the elections and nothing else. I will empirically address this hypothesis.

<sup>4</sup>The countries in the dataset are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the UK.

elections.<sup>5</sup> Pre-electoral coalitions may form in a mixed-member or a majoritarian electoral system because it strongly rewards bigger parties. In a PR electoral system they may form to get into the legislature, to increase turnout (Tillman 2013) or to indicate the voters that they are an alternative to the government (Golder 2006). Thus, unlike some research questions on government types and electoral systems, the influence of the opposition coalitions is identifiable.

My outcome variable is the total government spending as a fraction of the GDP in a given year. In this paper, I consider the parties and coalition of parties as representatives of special interest groups (Bawn and Rosenbluth 2006). I assume that parties, whether on the right or on the left need money to execute the preferred policies of their supporting interest groups. According to my hypothesis if there are coalitions in the opposition the importance of any coalition partners in the government increases.

Consequently, I argue that one observational implication of the theory is that if the opposition is more unified then the spending of the government increases. I use the total spending of the government in this paper since it can account for increase in spending in several different policy areas preferred by the left and the right governments. Because of this it is not as susceptible to the ideological changes in the government as other measures could be (Bawn and Rosenbluth 2006). Maybe it would be more accurate to measure the changes of different types of government spending, as parties often campaign on cutting government spending. Also it is possible that we can expect different non-monetary policy changes based on the ideology of the government or the opposition coalition.

---

<sup>5</sup>Even in the United Kingdom, famous for its one-party governments, the Liberals and the Social Democrats formed a pre-electoral coalition that received 25.37% of the votes in 1983.

Again, if there are governments that cut spending and other governments that increase spending because of the unified opposition I will not find any effect or this will bias my results downwards. In future research however, I plan to explore different types of policy areas.

## **Control Variables**

I use various political and economic variables to control for the factors that were shown to influence government spending by previous research. The political control variables I use are: the effective number of parties in the legislature, the number of parties in the government (the raw number), the ideological position of the government on the traditional left- right scale (higher values indicate right wing ideology), and whether or not the government is a caretaker government.<sup>6</sup> The economic control variables are the unemployment rate, trade openness, GDP per capita, and the dependency ratio in the society.<sup>7</sup>

Governments must decide on the budget one year before the fiscal year.

There are two types of outlays one that change based on yearly changes and those

---

<sup>6</sup>The variables are the following: the effective number of legislative parties (ENLP) is the reciprocal of the sum of squared seat shares across all parties present in the legislature (Bawn and Rosenbluth 2006). The number of the parties in the government is based on the Warwick's original data (1994) with additions made by Bawn and Rosenbluth (2006). The number of parties in the government in a given year is weighted based on the election time. Caretaker government is also based on Warwick's data. The ideological position of the government parties is based on the weighted average of the ideological parties in government based on their left on right position in the Manifesto Dataset Project. The left and right positions are accumulated by Laver and Budge (1992). They aggregate measures in the dataset that have ideological meaning (Bawn and Rosenbluth 2006).

<sup>7</sup>The economic variables are from the OECD outlook database (Bawn and Rosenbluth 2006). The GDP per capita is measured in billions of 2000 dollars divided by the population in millions. Unemployment is the percent of unemployed as the total labor force. Trade openness is the measure of imports and exports divided by the GDP. Dependency ratio is the ratio of the population below the age 15 and above the age 65 divided by the size of the population (Bawn and Rosenbluth 2006)

that are decided previously. For instance, pensions can change year to year if they are indexed to inflation, bigger construction projects however, are decided on year to year basis. I address within the model how the different variables may influence the budget in a given year. I use the one year lagged version of all relevant political variables to estimate my model since I believe that the government structure of the year before influences spending. In contrast, I use both the current and the one year lagged variables for economic variables.

In addition to these variables, because this is a cross-sectional- time - series dataset that may have serial correlation in the error terms, I include the lagged dependent variable in the model. I estimate the model with a simple OLS with Panel Corrected Standard Errors (PCSE)s.<sup>8</sup> Including the lagged dependent variable can cause some estimation issues that I will discuss following my results, however the main finding does not change even if I leave this variable out.

## Results

*Table 1* presents the empirical results on how the voteshare of the biggest pre-electoral coalition running in the previous election influences government spending. *Column (1)* presents the model in which I test the hypothesis that if the opposition is more unified then the spending of the government increases. In the model I include the interaction term between the effective number of legislative parties and the voteshare of the biggest opposition coalition to account for the possibility that the government is influenced by a unified opposition more when the legislature is fragmented and there is little competition without an opposition coalition. *Column*

---

<sup>8</sup> I correct for the possible error caused by the time wise and cross sectional heteroscedasticity in the errors by estimating the model with panel corrected standard errors, with a robust covariance structure suggested by Beck and Katz (1995).

(2)-(5) present different robustness checks.

As we can see the interaction term between the effective number of legislative parties, and the vote share of the biggest pre-electoral coalition in opposition is positive and significant in all specifications. I find that a unit increase in the interaction term of the percent vote share of the biggest pre-electoral coalition in the previous election and the effective number of parties in the legislature increases government spending by 0.15%.<sup>9</sup> The result is significant at the 99% level. This means that the influence of a pre-electoral coalition in opposition on government spending becomes bigger and bigger as the fragmentation of the legislature increases. If we calculate with the highest value of the interaction term in the dataset, we get that this can increase the government spending by 5.56%. *Column (1)* shows further, that not considering the interaction the size of the biggest opposition pre-electoral coalition decreases spending. Taken together with the interaction term this means that the percent of voteshare of the biggest pre-electoral coalition increases spending only in legislatures where the effective number of legislative parties is bigger than 2.4. This makes sense if we consider that the theory would only apply in situations where there are at least 3 parties in the competition.<sup>10</sup>

However, *Column (2)* shows that when I drop the lag of the ideology of the government from the regression the voteshare of the biggest opposition coali-

---

<sup>9</sup> In France the average ENLP is 3.31 and the average voteshare of the biggest pre-electoral coalition is 31.22% (*Table 2*). If we calculate with these averages, the budget increases with 1.55% in a year because of the unified opposition. This is approximately the same amount with which France's budget deficit currently exceeds the 3% budget deficit that the EU mandates. According to *The Guardian*, this budget deficit makes Hollande's position insecure (Inman 2014).

<sup>10</sup> The effective number of legislative parties is a composite measure and there are several party systems can lead to an ENLP of 2.4. From 1970-1998 the average ENLP was lower than 2.4 in two countries: Greece and UK (*Table 2*).

tion variable becomes insignificant. In fact, the ideology of the government in the previous election could be an outcome variable, and vary based on the ideology of the biggest pre-electoral coalition that they are competing with. There are some theories that indicate that the ideologies of the competing parties are not independent from each other, and it is possible that during the election the parties change their ideology to adjust to a big opposition power (Meguid 2005). I found that the variable ideology is an outcome variable under certain specifications in this case too. This secondary finding may show that pre-electoral coalitions can influence the politics of the government in more than one way. Further, *Column (1)* shows the following results: I find that the effective number of legislative parties in itself is not significant for government spending. In contrast, the increase in the number of parties in the government increases government spending which is consistent with the previous literature (Bawn and Rosenbluth 2006). I find, consistent with the prior expectations that if a government is a caretaker government that decreases spending as these governments as a norm cannot pass budgets.

The results show that government spending increases when there was a successful pre-electoral coalition in the previous election. I argue that this means that the government reacts to the presence of a unified opposition. However, one could argue the spending only increases due to the competitiveness of the elections. To test this alternative hypothesis, I included in further specifications a dummy for election years, and I tested whether the results were driven by election years or the year leading up the elections. These results are not reported in the paper, but they show that the result is not limited to election years or the years before the election. The impact of the size of the biggest pre-electoral coalition that did not win in the previous elections continues through the tenure of the government. This

may indicate that indeed what I found is the influence of the opposition structure.

## **Robustness Checks**

The result is robust under many different specifications and I present in this paper a few important ones. In *Columns (3)-(5)* of *Table 1* I present three different alternative model specifications which each control for country level differences in alternative ways. First, I include a series of dummies based on the theory that Hallerberg presents in his book *Domestic Budgets in a United Europe* (Hallerberg 2004). Hallerberg argues that based on the electoral system and the expectation of what is the most typical government type in the country, some European countries delegate more power to the finance minister than others. In countries where there is a competitive environment, the government prefers balanced budgets and they delegate this responsibility to the finance minister. In countries where there is low competition, the ministers are responsible for their policy areas and they may spend more. Hallerberg divides the European countries into five categories: countries with governments formed by strong legislative blocks or single parties (UK, Greece, France, and Germany), countries that have coalition contracts between parties (the Netherlands, Belgium, and Finland), countries with stable party systems and proportional representation (Denmark and Sweden), countries that have had periods of party system instability (Austria, Portugal, Ireland, and Spain), and finally, Italy in its own category as it had a major change in its party system. *Column (3)* shows that the Scandinavian countries and the countries with unstable party systems indeed spend more than the countries in the other categories but this does not influence my main result.

*Column (4)* shows that the result stands when I include a dummy variable representing whether the country had a proportional representation electoral system or not (PR). As expected from previous studies PR countries spend more but it has a separate effect on spending from the opposition coalition effect.

One of the most rigorous tests of robustness would be to include country and year fixed effects in the model. This is especially true because there is a great deal of variation in the average vote shares of the biggest pre-electoral coalition that lost between different parties (*Table 2*). The country fixed effects account for the cultural differences and other idiosyncratic differences between the countries that are not captured by the control variables while the year fixed effects account for common shocks to all the European economies that are not captured by the economic variables. However, if we have a cross-sectional-time-series dataset and we have included the lagged dependent variable in the model, further including fixed effects can introduce bias in the estimation (Nickel 1981; Beck and Katz 1995). This is especially true with a small dataset such as this one.

Consequently, I ran a simple OLS with panel corrected standard errors as my main model (*Column (1)-(4)*). However, in *Column (5)* of *Table 1* I present the results with country and year fixed effects. With this specification, I show that while the influence of the opposition coalition variable disappears, the interaction effect remains the same size and it is still highly significant. This means that even within a country a unified opposition can change the size of the budget. Finally, I estimated the model with fixed effects but without the lagged dependent variable to avoid bias too. The results did not change even with this specification. Overall, it seems that my results are robust to many different specifications. Spending is high during the entire tenure of the government when the opposition is unified

and the results hold up when I control for the idiosyncratic characteristics of the countries or when I control for specific political characteristics of the countries like their electoral system.

## **Conclusion**

In the previous pages I have argued that the existence of opposition coalitions can influence the behavior of the government. To test this hypothesis, I calculated the effect of the size of the biggest pre-electoral coalition that lost in the previous elections on government spending. I found that a unified opposition increased government spending in a fragmented legislature. The effect of the opposition coalition lasts for the entire tenure of the government, and so is not limited to election years. I argued that this finding provides some evidence that pre-electoral coalitions are not just temporary alliances that form to run together in one election but they may continue in the opposition.

To explain this behavior my current hypothesis is that a unified opposition group limits the chances of the parties in the current government coalition to be selected in the next government coalition. This is because, in the event they win the next election, the opposition parties are committed to entering a coalition together and the parties in the current government are more likely to be excluded from the new governing coalition. The bigger the threat from the opposition the more the biggest government party may feel compelled to satisfy the needs of the special interest groups of the smaller coalition parties.

While the empirical evidence is robust to various alternate specifications the research poses several questions. First, it is a question whether the effect is the

same for any big opposition block. It is possible that pre-electoral coalitions are considered a close equivalent to parties by the other parties, but also they could be even more threatening if they can appeal to a more diverse set of voters than a single party could.

Another question is what other observational implications my theory would have. It would be logical to assume that a strong pre-electoral coalition could influence the government parties' manifestos during the same elections they run. In the literature, there is some evidence that political parties take into account the positions of their competitors when they position themselves. Downs' (1957) original proposition is that if there are two major parties in an electoral system they will have similar, centrist policies. Meguid (2005) shows that small parties with extreme agendas can influence the policy promises of the bigger parties as the big parties may engage some of the requests of the extremist to avoid competition. The logic may extend to pre-electoral coalitions and their (joint) positions on the ideological spectrum.<sup>11</sup>

While this paper presented evidence that the existence of opposition coalitions can affect government policies, the evidence is by no means conclusive. Maybe we should construct better measures to accommodate the real opposition structure (effective number of opposition parties and/or coalitions). This may be a challenging task. However, I hope that with this paper I demonstrated that discovering the real competition structure of different countries may be a worthy task. If we consider stable coalitions as units within the party system it can help us understand

---

<sup>11</sup> In my regressions leaving out the ideology variable changed the significance of the influence of the biggest opposition coalition variable. Under some specifications I even found that the ideology may be a dependent variable. Ideology of course can move to two different directions depending on the ideology of the ruling party so I have to investigate more carefully the relationship between these variables to get meaningful results.

more about parties and party competition. It could get us closer to understanding what determines government policies and how the opposition influences the government. Finally, this approach may be a useful way to separate electoral system effects from party effects, two concepts that political science has so far confounded in its studies of governmental policy making.

## References

Aldrich, John. 1995. *Why Parties? The Origin and Transformation of Party Politics in America*. Chicago, IL: University of Chicago Press.

Axelrod, Robert. 1970. *Conflict of Interest: A Theory of Divergent Goals with Application to Politics*. Chicago, IL: Markham Publishing Company.

Bawn, Kathleen, and Frances Rosenbluth. 2003. "Coalition Parties versus Coalitions of Parties: How Electoral Agency Shapes the Political Logic of Costs and Benefits." Manuscript.

———. 2006a. "Short versus Long Coalitions: Electoral Accountability and the Size of the Public Sector." *American Journal of Political Science* 50(2): 251–65.

———. 2006b. "Short versus Long Coalitions: Electoral Accountability and the Size of the Public Sector." Replication Files.

Beck, Nathaniel, and Jonathan N. Katz. 2007. "Random Coefficient Models for Time-Series–Cross-Section Data: Monte Carlo Experiments." *Political Analysis* 15(2): 182–95.

———. 2011. "Modeling Dynamics in Time-Series–Cross-Section Political Economy Data." *Annual Review of Political Science* 14: 331–52.

Boix, Charles. 2007. "The Emergence of Party Systems." In *Handbook of Comparative Politics*, eds. Boix, Charles, and Susan Carol Stokes. Oxford: Oxford University Press.

Blais, André, and Indridi H. Indridason. 2007. "Making Candidates Count: The Logic of Electoral Alliances in Two-Round Legislative Elections." *Journal of Politics* 69 (1): 193–205.

Budge, Ian, Hans-Dieter Klingemann, Andrea Volkens, Judith Bara with Eric Fording, Richard C. Tanenbaum, Derek J. Hearl, Hee Min Kim, Michael McDonald and Silvia Mendez. 2001. *Mapping Policy Preferences. Estimates for Parties, Electors, and Governments 1945-1998*. Oxford: Oxford University Press.

Cox, Gary W. 1990. "Centripetal and Centrifugal Incentives in Electoral Systems." *American Journal of Political Science* 34(4): 903-35.

Debus, Marc. 2009. "Pre-Electoral Commitments and Government Formation." *Public Choice* 138 (1-2): 45-64.

Duverger, Maurice. 1951. *Political Parties: Their Organization and Activity in the Modern State*. New York: Wiley.

Frees, Edward W. 2004. *Longitudinal and Panel Data: Analysis and Applications in the Social Sciences*. Cambridge: Cambridge University Press.

Golder, Nadenichek Sonia. 2006a. *The Logic of Pre-electoral Coalition Formation*. The Ohio State University Press.

———. 2006b. The Logic of Pre-electoral Coalition Formation. Chapter 7 Replication Files.

<[https://files.nyu.edu/sln202/public/replication\\_book.html](https://files.nyu.edu/sln202/public/replication_book.html)>

Grofman, Bernard, and Lijphart, Arend.eds.1986. *Electoral Laws and Their Political Consequences*. New York: Agathon Press.

Hallerberg, Mark. 2004. *Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU*. Cornell University Press.

Hsiao, Cheng. 2002. *Analysis of Panel Data*. Cambridge, UK: Cambridge University Press.

Inman, Philip. 2014. "France to Miss EU Budget Deficit Target." *The Guardian*, 10 September.

<<http://www.theguardian.com/business/2014/sep/10/france-miss-eu-budget-deficit-target>>

Iversen, Torben, and David Soskice. 2006. "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More Than Others." *American Political Science Review* 100(2): 165-81.

Janda, Kenneth. 2000. International Comparative Political Parties Project (ICPP 2000) Initiative.

<<http://www.janda.org/ICPP/ICPP2000/>>

Kitchelt, Herbert. 2007. "Party Systems." In *Handbook of Comparative Politics*, eds. Boix, Charles, and Susan Carol Stokes. Oxford: Oxford University Press.

Laver, Michael. 1989. "Party Competition and Party System Change: The Interaction of Coalition Bargaining and Electoral Competition." *Journal of Theoretical Politics* 1(3): 301-24.

Laver, Michael, and Kenneth Shepsle. 1990. "Coalitions and Cabinet Government." *American Political Science Review* 84(3): 873-90.

Laver, Michael, and Norman Schofield. 1998. *Multiparty Government: The Politics of Coalition in Europe*. University of Michigan Press.

Martin, Lanny W., and Georg Vanberg. 2011. *Parliaments and Coalitions: The Role of Legislative Institutions in Multiparty Governance*. Oxford: Oxford University Press.

McKelvey, R.D. and Norman Schofield. 1987. "Generalized Symmetry Conditions at a Core Point." *Econometrica* 55(4): 923-33.

Mukherjee, Bumba. 2003. "Political Parties and the Size of the Government in Multiparty Legislatures." *Comparative Political Studies* 36(6):699-728.

Müller, Wolfgang C., Torbjörn Bergman and Kaare Strøm. 2008. "Coalition Theory and Cabinet Governance: An Introduction." In *Cabinets and Coalition Bargaining: The Democratic Life Cycle in Western Europe*, eds. Strøm, Kaare, Wolfgang C. Müller, and Torbjörn Bergman. Oxford: Oxford University Press, 1-51.

Müller, Wolfgang C., and Kaare Strøm. eds. 2000. *Coalition Governments in Western Europe*. Oxford: Oxford University Press.

Neto, Octavio Amorim, and Gary W. Cox. 1997. "Electoral Institutions, Cleavage Structures, and the Number of Parties." *American Journal of Political Science* 41(1): 149-174.

Nickel, Stephen. 1981. "Biases in Dynamic Models with Fixed Effects." *Econometrica* 49(6): 1417-26  
Ordeshook, Peter C., and Olga V. Shvetsova. 1994. "Ethnic Heterogeneity, District Magnitude, and the Number of Parties." *American Journal of Political Science* 30(1)100-123.

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

Riker, William H. 1962. *The Theory of Political Coalitions*. New Haven: Yale University Press.

Roubini, Nouriel, and Jeffrey D. Sachs. 1989. "Government Spending and Budget Deficits in the Industrial Economies." NBER Working Paper No. 2919. Cambridge, Mass.: National Bureau of Economic Research.

Scheiner, Ethan. 2006. *Democracy without Competition in Japan: Opposition Failure in a One-Party Dominant State*. Cambridge University Press.

Schofield Norman. 1982. "Bargaining Set Theory and Stability in Coalition Governments." *Mathematical Social Sciences* 3:9-31.

Schwartz, Thomas. 1989. "Why Parties?" Manuscript. UCLA.

Strøm, Kaare, Ian Budge, and Michael J. Laver. 1994. "Constraints on Cabinet Formation in Parliamentary Democracies." *American Journal of Political Science* 38(2): 303-35.

Strøm, Kaare. 1990. "A Behavioral Theory of Competitive Political Parties." *American Journal of Political Science* 34(2):565-98.

Swaan, Abrahaam de. 1973. *Coalition Theories and Cabinet Formation: A Study of Formal Theories of Coalition Formation Applied to Nine European Parliaments after 1918*. Amsterdam: Elsevier.

Taagepera, Rein. 1999. "The Number of Parties as a Function of Heterogeneity and Electoral System." *Comparative Political Studies*. 32(5): 531-48.

Thies, Michael F. 2001. "Keeping Tabs on One's Partners: The Logic of Delegation in Coalition Formation." *American Journal of Political Science*. 45(3): 580-98.

Tillman, Erik R. 2013. "Pre-Electoral Coalitions and Voter Turnout." *Party Politics* 19(6):1-12.

Volkens, Andrea, Pola Lehmann, Nicolas Merz, Sven Regel and Annika Werner. 2013. The Manifesto Data Collection. Manifesto Project (MRG/CMP/MARPOR). Berlin: Wissenschaftszentrum Berlin für Sozialforschung (WZB).  
<[https://manifestoproject.wzb.eu/FullManifestoProjectDataset\(version2012b\)](https://manifestoproject.wzb.eu/FullManifestoProjectDataset(version2012b))>.

Warwick, Paul V. 1979. "The Durability of Coalition Governments in Parliamentary Democracies." *Comparative Political Studies* 11: 464-98.

Weingast, Barry. 1979. "A Rational Choice Perspective on Congressional Norms." *American Journal of Political Science* 23(2): 245-63.

Winter, Liven de, and Patrick Dumont. 2008. "Uncertainty and Complexity in Cabinet Formation." In *Cabinets and Coalition Bargaining: The Democratic Life Cycle in Western Europe*, eds. Strøm, Kaare, Wolfgang C. Müller, and Torbjörn Bergman. Oxford: Oxford University Press, 123-159.

Table 1: Effect of the Electoral Result of the Biggest Opposition Coalition on the Size of the Public Sector in Various Countries 1970-1998

<i>Dependent variable: Total Government Outlays as a percent of the GDP</i>					
	(PCSEs)	(PCSEs wo/ ideology)	(PCSEs w/Hallerberg)	(PCSEs w/PR)	(PCSEs w/FE)
Coalition in Opp* ENLP lag	0.014** (0.006)	0.012** (0.006)	0.016*** (0.006)	0.015*** (0.005)	0.015** (0.006)
Coalition in Opp lag	-0.034* (0.019)	-0.027 (0.020)	-0.035* (0.021)	-0.033* (0.019)	-0.036 (0.023)
Parties in Gov't lag	0.309*** (0.114)	0.282** (0.122)	0.524*** (0.130)	0.331*** (0.112)	0.478*** (0.131)
ENLP lag	-0.189 (0.115)	-0.149 (0.128)	-0.478*** (0.150)	-0.271** (0.120)	-0.353* (0.193)
Ideology of the Gov't lag	-0.015*** (0.004)		-0.008 (0.005)	-0.014*** (0.004)	-0.014*** (0.005)
Caretaker Gov't lag	-5.284*** (1.438)	-5.166*** (1.458)	-5.018*** (1.474)	-5.301*** (1.430)	-4.320*** (1.561)
Haller2(NL,FIN,B)			0.625 (0.381)		
Haller3(DK, S)			1.606*** (0.335)		
Haller4(I)			0.218 (0.368)		
Haller5(A,P,IRL,E)			0.440** (0.198)		
PR lag				0.518** (0.227)	
GDP/cap current	-2.307*** (0.243)	-2.248*** (0.243)	-3.252*** (0.295)	-2.343*** (0.246)	-1.847*** (0.227)
GDP/cap lag	2.320*** (0.249)	2.251*** (0.248)	3.280*** (0.302)	2.357*** (0.252)	1.732*** (0.259)
Dependency current	-0.107 (0.353)	-0.081 (0.364)	-0.176 (0.379)	0.011 (0.351)	-0.172 (0.441)
Dependency lag	0.124 (0.350)	0.085 (0.363)	0.173 (0.387)	0.021 (0.347)	0.190 (0.436)
Unemployment current	0.150 (0.106)	0.177* (0.108)	0.063 (0.109)	0.155 (0.106)	0.171 (0.110)
Unemployment lagged	-0.190* (0.106)	-0.228** (0.108)	-0.080 (0.112)	-0.184* (0.106)	-0.099 (0.115)
Openness current	-0.079*** (0.025)	-0.084*** (0.026)	-0.140*** (0.035)	-0.074*** (0.025)	-0.048* (0.029)
Openness lag	0.083*** (0.025)	0.088*** (0.026)	0.151*** (0.037)	0.079*** (0.025)	0.019 (0.029)
Spending (DV) lag	0.921*** (0.013)	0.924*** (0.015)	0.882*** (0.017)	0.917*** (0.013)	0.811*** (0.032)
Constant	4.135** (1.736)	4.565** (1.996)	6.263*** (1.897)	3.529** (1.721)	

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Note: The dependent variable is total government outlays as a percent GDP. Independent variables: Coalition in Opp- the voteshare of the biggest pre-electoral coalition in the previous elections that is not in the government. ENLP: effective number of legislative parties. Hallerberg baseline category is (F,D,GR,GB); PR: dummy- proportional representation or not; Dependency (population share below 15 above 65); Openness: Export plus Import as a percent of the GDP)

Table 2: Summary Statistics of the Cases

	Country	Mean ENLP	Mean Opposition Coal	Hallerberg Classification
1	Austria	2.57	2.04	5.00
2	Belgium	6.89	5.57	2.00
3	Denmark	4.92	1.72	3.00
4	Finland	5.22	0.96	2.00
5	France	3.31	31.22	1.00
6	Iceland	4.04	1.62	
7	Ireland	2.77	9.03	5.00
8	Italy	4.32	5.69	4.00
9	Luxembourg	3.63	2.67	
10	Netherlands	4.68	6.98	2.00
11	Norway	3.57	15.50	
12	Portugal	3.04	12.04	5.00
13	Spain	2.66	13.77	5.00
14	Sweden	3.48	6.21	3.00
15	UK	2.17	7.26	1.00
16	West Germany	2.59	21.37	1.00
17	Greece	2.17	11.46	1.00