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Political Institutions and Policy Outcomes: The Political Constraints Approach of Henisz

Nick Hoffmann*

Introduction

Governance is a concept that we can see "as the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those authority [sic] are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them" (World Bank 2010). According to Henisz the capacity of the government to implement policy change is determined by the political institutions of a given political system.[1] Political "institutions" include beneath government branches (executive, legislative, judiciary), administrations and other public authorities, the constitution, rules of voting, majority rule or proportional representation, as well as values and attitudes concerning the management of collective problems. Players and actors describe the operating stakeholders in the political institutions, as president, government, legislative chambers, courts, and in some cases political parties.

The aim of Henisz is to explain the central role political institutions (political structures) play and how they constrain policy decisions. Policy constraints influence the behaviour of players, their role and their decision making and finally the change of policy. Henisz develops "a new measure of political constraints from a simple spatial model of political interaction that incorporates information on the number of independent branches of government with veto power and the distribution of preferences across and within those branches" (Henisz 2000, 1). This measure is structurally derived and internationally comparable.

Henisz draws his theoretical findings on Tsebelis (1995), who developed the "veto players" approach. He concentrates on how political institutions influence the feasibility of changing status quo policy. The innovative element in his approach is his focus on the capacity of institutions to produce policy change. "Veto players are individual or collective actors whose agreement (by majority rule for collective actors) is required for a change of the status quo (policy)" (Tsebelis 1995, 289). With this new focus Tsebelis can overcome the common distinctions made in political science, especially in government studies: between presidential and parliamentary systems or between two-party systems and multi-party systems, etc. All political systems define which players must agree to change the status quo. This approach enables comparisons between different political systems on a much broader basis than scientists had before.

Elements of Henisz' approach[2]

To construct a structurally-derived internationally comparable measure of political constraints, the structures of political systems are simplified by focusing on two elements which have a strong bearing on the feasibility of policy change: "the number of independent veto points over policy outcomes and the distribution of preferences of the actors that inhabit them "(Henisz 2000, 7).

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[1] A broader concept sees institutions as a core group of elements in governance structures, as well as in all "branches" of the society. They "are the rules of the game in a society … (they) are the humanly devised constraints that shape human interaction" (North 1990, 3). They fulfil the functions to reduce uncertainty and set constraints in everyday life as well as in economic, political, or any other kind of interaction.

[2] Detailed numerical results of Henisz' measurements are in the tables "Political Constraints Index III" and "Political Constraints Index V" in the Folder Public Sector/Public Governance and Law/Political and Administrative System of CESifo's DICE Database (www.cesifo-group/DICE).

The political actors are: the executive, the lower house of legislature, the upper house of legislature, sub-federal units and judiciary. "Political actors will be denoted by *E* (for executive), *L1* (for lower house of legislature), *L2* (for upper house of legislature), *F* (for sub-federal units) and *J* (for judiciary). Each political actor has a preference, denoted by X_I where $I \varepsilon [E, L1, L2, F, J]$.

"Assume, initially, that the status quo policy (X_0) and the preferences of all actors are independently and identically drawn from a uniformly distributed unidimensional policy space [0, 1]. The utility of political actor *I* from a policy outcome *X* is assumed equal to $-|X-X_I|$ and thus ranges from a maximum of 0 (when $X=X_I$) to a minimum of -1 (when $X=0$ and $X_I=1$ or vice versa)" (Henisz 2000, 7–8).

The number of veto players

Each actor has preferences and veto power over final policy decisions. The constraints of every actor for his future policy decisions are calculated "as one minus the expected range of policies for which a change in the status quo can be agreed upon by all political actors with veto powers" (Henisz 2000, 8). E.g., an unchecked government can always obtain policy X_E and therefore gain a maximum possible utility of 0. For this case Henisz calculates the political discretion which equals 1 and political constrains (1 – political discretion) = 0.

The rise in the number of actors with independent veto power is accompanied by an increase in the level of political constraints. For instance, in a country with unicameral legislature (*L1*) the executive needs a majority in the chamber in order to implement policy changes. The executive cannot guarantee a special policy (X_E) as the legislative can veto a change from the status quo.

"Given the assumption that preferences are drawn independently and identically from a uniform distribution, the expected difference between the preferences of any two actors can be expressed as 1/(n+2) where n is the number of actors" (Henisz 2000, 9). If there are two political institutions with veto power (e.g., the executive and a unicameral legislative) the preferences lead to an expected preference difference ε equal to 1/(2+2) = 1/4.

There are six preference orderings possible, that Henisz "will assume are equally likely to occur in practice" (Hensiz 2000, 9; see Table 1). In the first case (1) "no change in executive preferences yields a change in policy" (Hensiz 2000, 9). The executive has the preference policy X_E of 1/4 and therefore prefers all policies between 1/2 – ε and 0 + ε to the status quo (X_0 = 1/2) and the legislature, which has the preference of X_{LI} = 3/4, prefers all policies between 1/2 + ε and 1 – ε to X_0. "As the executive and the legislature cannot agree on a change in policy (because of different preferences), political discretion (the feasibility of policy change) equals 0 and political constraints equal 1" (Henisz 2000, 9). Policy change is not possible in this case. The second model (2) has the same result, but here the preferences for the executive range between 1/2 and 1 and for the legislative branch between 0 and 1/2. "In the remaining orderings, both the executive and legislature agree on a direction in which policy should move relative to the status quo X_0. These cases have closed form

Table 1

The six possible preference orderings of the game $\{X_E, X_{LI}\}$

(1)	0	¼	½	¾	1	(4)	0	¼	½	¾	1
		X_E	X_0	X_{L1}				X_0	X_{L1}	X_E	
	EEEEEEEEEEEEE						EEEEEEEEEEEEEEEEEEE				
			LLLLLLLLLLLLLLL				LLLLLLLLLLLLLLL				
(2)	0	¼	½	¾	1	(5)	0	¼	½	¾	1
		X_{L1}	X_0	X_E				X_E	X_{L1}	X_0	
			EEEEEEEEEEEEE				EEEEEEEEEEEEEEEEEEE				
	LLLLLLLLLLLLLLL							LLLLLLLLLLLLLLLLL			
(3)	0	¼	½	¾	1	(6)	0	¼	½	¾	1
		X_0	X_E	X_{L1}				X_{L1}	X_E	X_0	
		EEEEEEEEEEEEE						EEEEEEEEEEEEE			
		LLLLLLLLLLLLLLLLLLLLLLL					LLLLLLLLLLLLLLLLLLLLLLL				

Source: Henisz (2000), 26.

solutions other than the status quo policy. Their exact values depend on the assumption as to who moves first (or last) and the relative costs of review by each party" (Henisz 2000, 9–10). "However … the range of outcomes over which both parties can agree to change the status quo is used as a measure of political discretion. As this range expands, there exists a larger set of policy changes preferred by both political actors with veto power" (Henisz 2000, 10). In case (3), the executive ($X_E = 1/2$) prefers policies between $1/4 + \varepsilon$ and $3/4 - \varepsilon$ to the status quo ($1/4$) and the legislature ($X_{L1} = 3/4$) has a preference for all policies greater than $1/4 + \varepsilon$. "There exists a range of policies approximately equal to $1/2$ (between $1/4 + \varepsilon$ and $3/4 - \varepsilon$), which both actors agree are superior to the status quo. The political discretion measure for this ordering therefore equals $1/2$ yielding a political constraint measure also equal to $1/2$. The same is true in orderings (4), (5) and (6). The expected level of the game $\{X_E, X_{L1}\}$ based on the number of veto points alone is the average of the political constraint measures across six possible preference orderings: $(1 + 1 + 1/2 + 1/2 + 1/2 + 1/2)/6 = 2/3$" (Henisz 2000, 10).

The preferences of the actors

This initial measurement of political constraint is based purely on the number of veto points derived from the constitutional frameset in a given polity accompanied by the assumption of uniformly distributed preferences. But for Henisz that seems to be very unrealistic and therefore the measurement of political constraints described so far is supplemented by information on the preferences of the different actors. The different preferences are often results of different party compilations of the government branches. If in two (or more) political institutions the same political parties "rule" there is an alignment between these two (or more) institutions. In the case of alignment Henisz sees the preferences as equal in the two (or more respective) different institutions. The "alignment (i.e., majority control of the executive and the legislature by the same party) would be expected to expand the range of political discretion and thereby reduce the level of political constraints" (Henisz 2000, 10). The constraint measure would be 0 if the legislature and the executive were completely aligned (same majority), even if they both have veto power (see Table 2).

Fractionalization of the legislature

"Further modifications are required when other political actors are neither completely aligned with nor completely independent from the executive" (Henisz 2000, 11), as is the case in many democratic systems. Here the composition of the parties in the other branches of government (executive, legislative chambers, judicial courts) is also relevant for the level of constraints. Costs vary when managing large homogeneous majorities or precarious majorities, which additionally are heterogeneous or polarized (and – in the latter – raises the level of political constraints). Legislatures which are aligned with the government and have large homogenous majorities are less expensive to manage and control. On the other hand "when the executive is faced with an opposition legislature, the level of constraints is positively correlated with the magnitude and concentration of the legislative majority. A heavily fractionalized opposition with a precarious majority may provide the executive with a lower level of constraints due to the difficulty in forming a cohesive legislative opposition bloc to any given policy. Information on the partisan alignment of different government branches and on the difficulty of forming a majority coalition with-

Table 2

Political constraints assuming complete independence or alignment

Independent political actors (government branches)	Entities (government branches) completely aligned with executive					
	None	*(L1 or L2)*	*J*	*L1 & L2*	*L & J*	*L1 & L2 & J*
E	0					
E, L1	2/3	0				
E, F	2/3					
E, J	2/3		0			
E, L1, F	4/5	2/3				
E, L1, L2	4/5	2/3		0		
E, L1, J	4/5	2/3	2/3		0	
E, L1, L2, F	13/15	4/5		2/3		
E, L1, F, J	13/15	4/5	4/5		2/3	
E, L1, L2, J	13/15	4/5	4/5	2/3	2/3	0
E, L1, L2, F, J	19/21	13/15	13/15	4/5	4/5	2/3

E: executive; – L1: lower legislature; – L2: upper legislature; – F: sub-federal, – J: judiciary.

Source: Henisz (2000), 27.

in them can therefore provide valuable information as to the extent of political constraints" (Henisz 2000, 11).

To provide reliable values on the dimension of political constraints to change policy Henisz includes the extent of fractionalization of the legislature. "The fractionalization of the legislature (or court) is approximately equal to the probability that two random draws from the legislature or court are from different parties" (Henisz 2000, 12). The formula is:

$$1-\sum_{i=1}^{n}\left[\frac{(n_i-1)\frac{n_i}{N}}{N-1}\right]$$

where:
n = number of parties
n_i = number of seats held by ith party
N = total number of seats.

The value of political constraints for cases in which executive and legislative are aligned is "thus equal to the value derived under complete alignment (see above) plus the fractionalization index multiplied by the difference between independent and completely aligned values" (Henisz 2000, 12; see Box). In cases where the opposition controls the legislature the values would be reversed (Henisz 2002, 384).

Modified calculation of political constraints

First the measurement of political constraints: As shown in Table 2 if the legislative is aligned with the executive the constraint measure is 0. If the government branches are completely independent, for Henisz that means that there is no alignment (the majority parties in executive and legislature being completely different) the political constraints measure would be $^2/_3$.
The second step is the calculation of the fractionalization index, which is also needed for the calculation of political constraints. If the same party controls the executive and the legislative and the fractionalization index equals $^1/_4$ (which means that the executive has a large or homogenous majority in the chamber), then the modified constraint measure equals
$0 + {}^1/_4 * ({}^2/_3 - 0) = {}^1/_6$.
In cases where the fractionalization index equals $^3/_4$ (precarious or heterogeneous majority of the executive), this measure would equal $0 + {}^3/_4 * ({}^2/_3 - 0) = {}^1/_2$.

Empirical results

Henisz calculated the constraints and therefore also the fractionalization for 157 countries in every year from 1960 to 1994. For this calculation he needed three types of data: the number of the institutional (veto) players (actors) in a given polity; data on partisan alignment across government branches (executive, legislative, judicative) and data on the party composition of the legislatures. The results show, that the most reliable institutional settings exist in "early defectors of the British Empire (United States, Australia, and Canada) and federal European states (Belgium, and Germany)" (Henisz 2000, 13). The weakest institutional settings with a high risk of failing are found in Sub-Saharan Africa and Paraguay. Observation over time shows, that the largest improvements took place in countries undergoing democratic transitions.

The influence of checks and balances on political volatility

Henisz amended his original approach (Henisz 2000) by extending his investigation to include the political institutions and the structure of the political decision making system. To show how political institutions and especially a system of checks and balances work, he developed two arguments: The first is: "Checks and balances on the discretion of policy-makers will be positively associated with policy stability, ceteris paribus" (Henisz 2004a, 7). And the second maintains that "Checks and balances on the discretion of policy-makers will moderate the impact of macroeconomic shocks on policy outcomes" (Henisz 2004a, 7).

Checks and balances are the basis of democratic political systems. It is a system of separation of powers, combined with mutual controls of the government branches (checks), that prevents abuse of power for the welfare of the system and the society as whole. Therefore it is important that the separation of power leads to a system in which branches check and balance each other, so that no branch has the power to overrule the other branches (balance). One instrument in this system is the veto power of the individual players. It is only the balances that enable the individual government branches (powers) to use and defend their competencies against the other individual government branches. This construct is part of the thinking of Rousseau and many other philosophers of the

Enlightenment. The system was first used in the constitution of the United States and is today a part of the constitutions in many democratic countries.

Two measures of the checks and balances on policy-makers discretion are used by Henisz. The first approach mentioned by Henisz – based on Beck et al. (2001, 170) – "counts the number of veto players in a political system, adjusting for whether these veto players are independent of each other, as determined by the level of electoral competitiveness in a system, their respective party affiliations, and the electoral rules." This index (CHECKS2A) increases linearly with the addition of further veto points and has different methodologies for presidential and parliamentary systems. In a presidential system if the presidents' party and the majority party in at least one chamber are the same than the president is not counted as a check. In parliamentary systems it is similar: additional points for the prime minister and every chamber (the number of checks increases), the same reduction if the party (or coalition of parties) of the prime minister is the majority party in at least one chamber (the number of checks decreases). Also as the number of checks changes, the balance changes. Thus constellations are possible in which some players dominate others because of same preferences (party membership). This index takes into account the relationship between veto players (here called veto points) and "it also assumes a linear relationship between the number of adjusted veto points and the degree of constraints on policy change. Similarly, the number of …veto points increases linearly in Parliamentary systems with each addition of a party to the ruling coalition without regard to the relative size of the parties in the coalition" (Henisz 2004a, 9).

As an alternative measure Henisz introduced the Political Constraints Index POLCONV. It begins similarly by assigning countries without veto points with the lowest score and "relies upon a simple spatial model of political interaction to derive the extent to which any one political actor or the replacement for any one actor – e.g., the executive or a chamber of the legislature – is constrained in his or her choice of future policies" (Henisz 2004a, 9). He starts with the identification of the number of independent branches of government which have veto power over policy change. "The preferences of each of these branches and the status quo policy are then assumed to be independently and identically drawn from a uniform, uni-dimensional policy space. This assumption allows for the derivation of a quantitative measure of institutional constraints using a simple spatial model of political interaction" (Henisz 2004a, 10). By using data on the party composition of the government and every legislative chamber, this initial measure is modified. With this modification Henisz tries to show the extent of alignment across branches of government. In his opinion this alignment increases the feasibility of policy change and reduces the level of political constraints (and reduces consequently the number of political checks). The next modification involves capturing the extent of preference heterogeneity within the legislative branches. For the author a greater heterogeneity within the branches increases the costs of overturning policy for aligned branches. POLCONV "does show diminishing marginal returns to the addition of subsequent veto points and the functional form of those diminishing returns is not arbitrary but rather derived from the spatial model" (Henisz 2004a, 10). The addition of a new party to a coalition is examined rather as an impact on the fractionalization of the legislature than as a new veto player.

Henisz shows the importance of institutional checks and balances on the discretion of policy-makers for the stability of a policy. He concludes that "the conventional wisdom that holds that political and institutional checks and balances that constrain policy-makers' discretion serve to limit policy volatility and thus encourage investment and economic growth appears well founded. In particular, non-conventional forms of revenue generation and capital expenditure appear particularly sensitive to the structure of a nation's political institutions" (Henisz 2004a, 17).

Political constraints in the US

Obviously the structure of the political system constrains policy making. But how are the political constraints calculated? Here an example that demonstrates how the values derived from the POLCON index of Henisz are generated: In 1990 both legislative chambers were controlled in the US by the Democrats while the Republican Party had control over the executive branch. "Were the two legislative chambers completely controlled by separate opposition parties, the political constraint measure would equal 0.90 ($E, L1, L2, F, J = {}^{19}/_{21}$). Were they completely controlled by a single opposition party, the political constraint measure would be 0.87 ($E, L, F, J = {}^{13}/_{15}$). If both chambers were completely aligned with the executive the measure would be 0.80 ($E, F, J = {}^{4}/_{5}$). However, as the

same opposition party controlled both legislatures and the fractionalization index equalled 0.48 and 0.50, the final value of political constraints (POLCON) equals 0.80 + [((1 – 0.48)/2 + (1 – 0.50)/2) * (0.87 – 0.80)] = 0.83"[3] (Henisz 2000, 23–24). The index used for this example measures the number of veto players, their preferences, the alignment (or independence) between them and the fractionalization index. The results show that the decision making process in the United States is restrictive.

Rational choice as basis for decisions

One of the main criticisms of Henisz's approach is that he does not pay that much attention to the strategic (ideological) and power gaining strategies of the players (Schmidt 2004, Zohlnhöfer 2003). As Henisz and Tsebelis have deduced their approaches from the rational choice theory, they assume rational behaviour on the part of all players. Players try to maximize benefit-cost-ratios in their decisions. For the critics, Henisz's players make their rational decisions based entirely on structures and their constraints. Zohlnhöfer argues that in the United Kingdom, for instance, there is only one formal veto player. Policy changes should be – according to Henisz – very easy to enact (if the prime minister is in a strong position and can convince or discipline enough members of parliament). But the pressure from society and the parties' strategies to gain or retain power sometimes impede reforms: the party interested in instituting reform must provide reasons for and defend the reform to the voters. That fact "disciplines" many politicians and discourages them from initiating reforms.

This criticism seems to be right in one respect. Henisz investigates primarily the structures of political systems. But he also includes in his approach the preferences of the players in the process of decision making. The preferences may be oriented towards solving problems but they may also be based on tactical considerations, ideologies and power-gaining strategies. Obviously, however, Henisz cannot measure to what extent political decisions are motivated by problem-solving objectives or by tactical, ideological or power-related reasons.

[3] The political constraints index POLCON equals: the value for political constraints derived under complete alignment (0.80) plus the fractionalization index [(1-0.48)/2 + (1-0.50)/2] multiplied by the difference between independent and completely aligned values (0,87-0,80). Reversed values because the opposition controls the legislature.

What about interest groups?

Up to this point the focus was primarily on veto players "within" the political system. For the disputes within the society interest groups play an important role. They have a strong impact on policy as they are intermediate entities between their members and collective players, especially the different government branches. And as the essence of the political process is to gain or to retain power the actors in the political processes have a very strong interest in both being informed about the society by the interest groups and spreading propaganda for government policy using the transmission channels of the interest groups. Some interest groups have great influence on people's beliefs and therefore it is important for the political actors not to alienate the opinions of these interest groups. In contrast, to pursue special policies it is very helpful for them to find a partner in the affected interest groups. Obviously interest groups have an impact on every kind of political decision. They also influence the preferences of political institutions to a certain extent.

However interest groups per se do not determine policy outcomes. "The formal institutional structure of the policymaking process may facilitate or impede interest groups' attainment of their preferred policy" (Henisz 2004b, 9–10). The structure may influence the extent of pressure that the groups can bear on policy (-makers) and also the possibilities of the policymaker to respond to the pressure of the interest groups. Henisz concludes "that policymaking structures with more veto points reduce the degree to which political actors are sensitive to interest group pressures relative to structures with fewer veto points" (Henisz 2004b, 11). However, Henisz cannot measure how strong the influence of interest groups is on specific political decisions.

What else matters for decision making?

The most important player in the preparation and also the implementation of political decisions is the bureaucracy, which does not refer so much to the Weberian ideal of "legal and rational leadership" but to the administrative organization. Its employees design draft bills and decrees, and they are responsible for the application of the laws and decrees after they have passed. Bureaucracies have powerful positions in political systems. Unfortunately Henisz did not examine the role of the administration in the process of policy change.

In contrast Tsebelis' veto player approach can be expanded to include, among others, the influence of bureaucracies. One main point to consider is the independence of bureaucracies. For Tsebelis the number of veto players is decisive. "Single veto players do not need detailed descriptions of bureaucratic procedures written into law" (Tsebelis 1995, 324). The party in power can decide how the administrative organization is going to work. The government has no reason for legal procedures to rule the bureaucracy. Also writing down the rules for the future makes no sense in such a system. The next government can change everything the moment they come to power. The absence of laws to control the bureaucracy and the fact, that only one agent leads it, will probably result in a lack of independence.

If there are multiple veto players, they "will try to crystallize the balance of forces at the time they write a law, in order to restrict bureaucracies as much as they can" (Tsebelis 1995, 324). The restrictiveness of rules and regulations for the bureaucracy depends on the agreement between the veto players. In cases, where the veto players disagree politically and also procedurally, the law concerning the bureaucracy can be more general and can give "leeway to the bureaucrats" (Tsebelis 1995, 324). There is – even if there are multiple veto players – no guarantee that detailed procedural descriptions will be written into law.

Tsebelis concludes that systems with multiple veto players tend to have more cumbersome bureaucratic procedures than systems with one single veto player. "Cumbersome bureaucratic procedures should not be confounded with lack of independence; in fact, they might be a weapon of bureaucrats against political interference in their tasks" (Tsebelis 1995, 324). But in all bureaucracies there is strong expertise on the part of the civil servants. In this respect their influence is considerable and is not dependent on the regulations they are subject to. A long-standing civil servant in a governmental agency is normally very familiar with the topics of his department and therefore has a superior knowledge in comparison with a new ministry or secretary of the department. The civil servant can use this advantage to help the new head of the department or to follow his own interests. His influence is tremendous. Another phenomenon has recently arisen in the realm of lobbyism: particular interest groups endeavour to place their employees in the bureaucracy. Once they are in, the new civil servants can work towards implementing the ideas of their "former" (and probably next) employer.

Summary

Veto players (Tsebelis) or veto points (Henisz) provide a reasonable approach to explaining the constraints on political decisions. Both approaches are focused on the players with real veto power. These players are able to change the status quo or prevent change. By counting the number of the veto players/veto points, by watching their cohesion and congruence, it is possible to determine the process of change. Even the critics of the veto player approach concede that it contributes to the understanding of these processes and constraints (even if they cannot fully explain it). Obviously in economics the counting of veto points is not enough to explain the political constraints of decision-making. The critics are correct, but Henisz does not restrict his approach to counting. By including preferences he implicitly considers the ideological and also the power-gaining and power-retaining aspects of political decisions. Henisz delivers a tool that elucidates the constraints inherent in the political structure. The approach contributes to an understanding of the basic pattern of decision making in different political systems and is "valid" for economic policy as well as other policy fields.

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