

The Effects of Political Institutions on Public Budgeting

Andrew Burnos
Political Science Senior Thesis
Bemidji State University
Dr. Patrick Donnay, Advisor

Current Deficit Issues

- The Euro zone debt crisis
 - Greece – €165 billion bailout (Roughly \$220 billion)
 - Ireland – €85 billion bailout (Roughly \$114 billion)
 - Portugal – €78 billion bailout (roughly \$104 billion)
 - Cyprus – €2.5 billion loan from Russia (Roughly \$3.3 billion)

Future Debt Crisis?

- Possible future debt crisis nations
 - Italy – debt 120% of GDP (\$2.4 trillion)
 - Spain – public debt \$820 billion in 2010 (8.5% of GDP)
 - Belgium – debt 100% of GDP
 - France – 83% GDP (\$2.1 trillion)

- Why is this important to us?

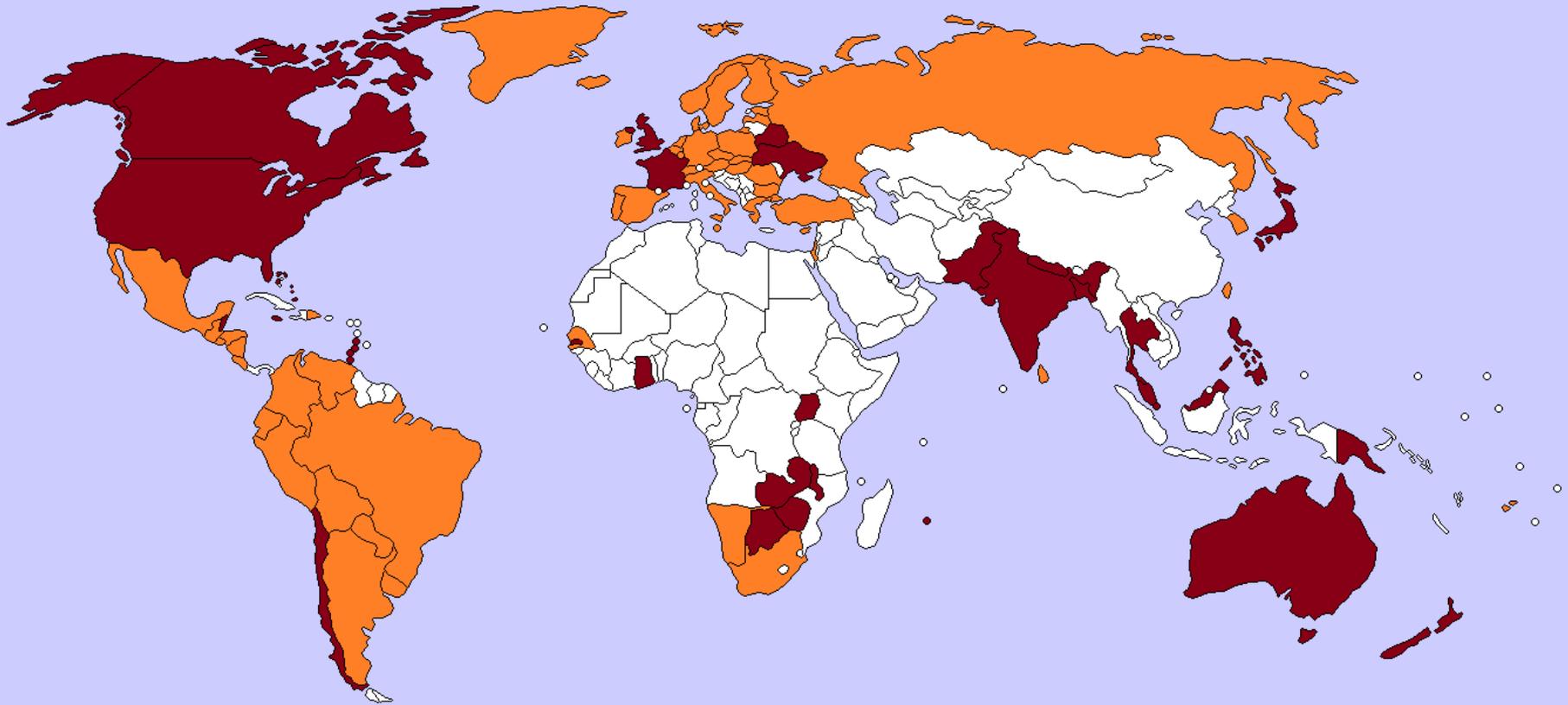
What connects them?

- Italy, Spain, Belgium, Greece, Ireland, and Portugal
 - Proportional Representation and Parliamentary
 - France – majoritarian and parliamentary
 - Cyprus – proportional Representation and presidential
- Coincidence?

Hypothesis

- In a comparison of countries, those who have a Presidential form of government will have a smaller deficit than those with a Parliamentary form of government.
- In a comparison of Countries, those who have a Majoritarian electoral system will have a smaller deficit than those with a Proportional Representative electoral system.

Electoral System



-  Proportional Representation = Orange
-  Majoritarian = Red

Previous Literature

- Heller, W.B. (1997) Bicameralism and Budget Deficits
 - Higher than Unicameral?
- Persson, T. Tabellini, G. (2003) The Economic Effects of Constitutions
 - Study the “missing link” between constitution and policy
- Gabel M., Hix S., Malecki M., (2008) Reconsidering TEEC
 - Thorough study however missed important variables

Methodology

- The Economic Effects of Constitutions
 - GDP 2006 - 2009
 - Tax Revenue per GDP 2006 – 2009
 - Public Expenditure per GDP 2006 – 2009
- Economic variables from the World Bank

Dependent Variables

- Tax Revenue – Public Expenses
- Account Balance
- GDP per Capita

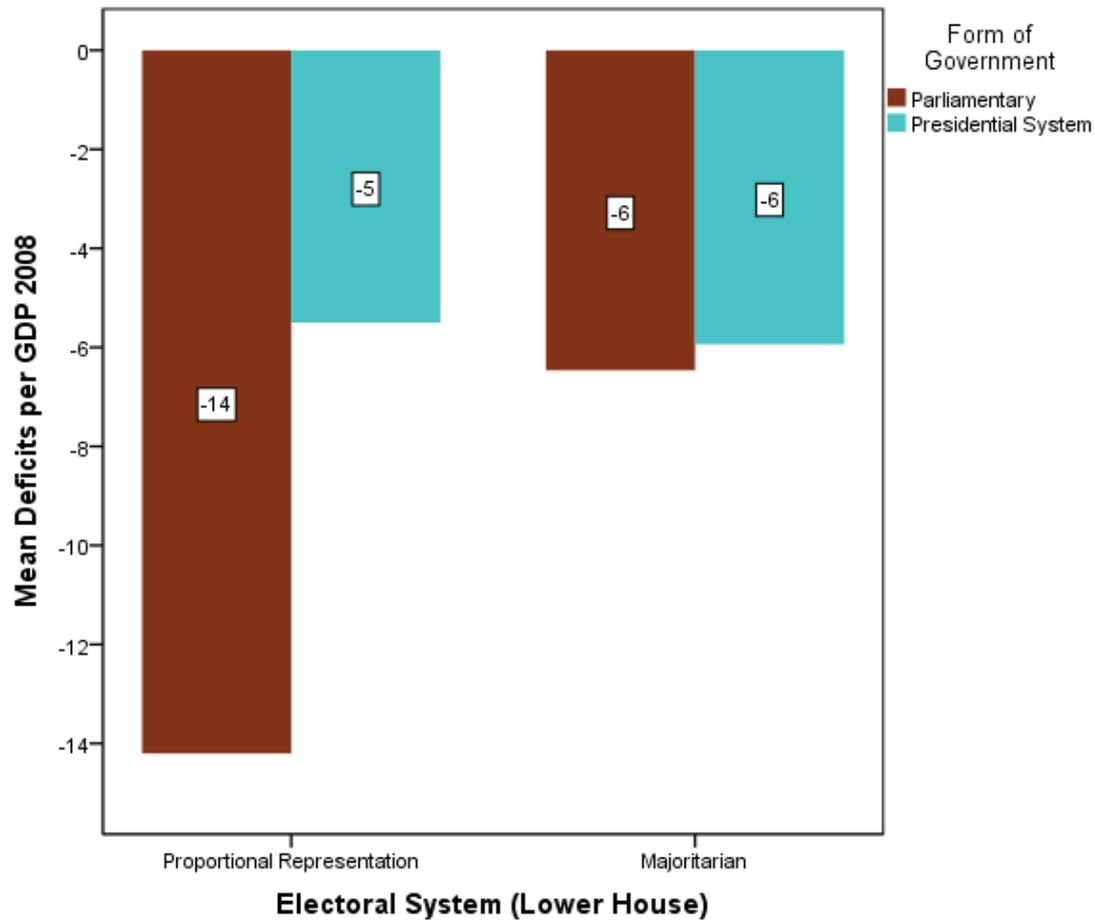
- All in current US dollars

Independent Variable

- Gathered from Persson and Tabellini “The Economic Effects of Constitutions”
 - Classified countries either **parliamentary** or **presidential**
 - Classified countries either **majoritarian** or **proportional**

Results

Mean Deficit by Electoral System and Form of Government



Results Cont.

Electoral Systems debt

		Electoral System Legislative Elections (Lower House)		Total
		Proportional Representation	Majoritarian	
Revenues minus Expenditures 2008	<i>High Deficit</i>	19 46.3%	2 9.1%	21 33.3%
	<i>Medium Deficit</i>	11 26.8%	9 40.9%	20 31.7%
	<i>Low Deficit</i>	11 26.8%	11 50.0%	22 34.9%
Total		41 100.0%	22 100.0%	63 100.0%

Chi-Square Significance .011

Gamma Value .556

Gamma Significance .002

Results Cont.

Form of Government Debt

		Form of Government		Total
		Parliamentary	Presidential System	
2008	<i>High Deficit</i>	20 50.0%	1 4.3%	21 33.3%
	<i>Medium Deficit</i>	8 20.0%	12 52.2%	20 31.7%
	<i>Low Deficit</i>	12 30.0%	10 43.5%	22 34.9%
Total		40 100.0%	23 100.0%	63 100.0%

Chi Square Significance .001

Gamma Value .520

Gamma Significance .002

Results Cont.

GDP per capita and Debt

		Gross Domestic Product Per Capita 2008			Total
		Low	Middle	High	
		Revenues minus Expenditures 2008	1 5.9%	8 36.4%	
	<i>High Deficit</i>				
	<i>Medium Deficit</i>	6 35.3%	8 36.4%	6 25.0%	20 31.7%
	<i>Low Deficit</i>	10 58.8%	6 27.3%	6 25.0%	22 34.9%
Total		17 100.0%	22 100.0%	24 100.0%	63 100.0%

Chi Square Significance .036

Gamma Value -.466

Gamma Significance .002

Results Cont.

Constit and Debt

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12.873	1.730		-7.440	.000
	Electoral System	4.674	1.720	.313	2.717	.009
	Legislative Elections (Lower House)					
	Form of Government	5.679	1.833	.383	3.097	.003
	Gross Domestic Product Per Capita 2008	-8.338E-6	.000	-.028	-.225	.823

Dependent Variable: Revenues minus Expenditures 2008

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508 ^a	.258	.220	6.34851

a. Predictors: (Constant), Gross Domestic Product Per Capita 2008, Electoral System
Legislative Elections (Lower House), Form of Government

Conclusion

- Presidential systems have fewer debts than Parliamentary
- Majoritarian systems have fewer debts than Proportional
 - Both of my hypotheses are supported
- On average those countries with Presidential Majoritarian have the fewest debts
- On average those countries with Parliamentary Proportional have the highest debts

• Questions?