Factors that Affect Party Institutionalization: Ethnicity, Electoral Systems, and Economics in East Europe

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Factors that Affect Party Institutionalization: Ethnicity, Electoral Systems, and Economics in East Europe

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Abstract

This thesis examines party institutionalization in East Europe. Ethnicity, electoral systems and economics are variables explored in the substantive chapters. Many political science studies examine the number of parties in East Europe, but only a few studies study party institutionalization. Chapter 1 establishes the foundations for this thesis and provides an overview of each chapter.

In the second chapter, I analyze the relationship between institutionalized parties and ethnicity. Kitschelt (1992) argues that in the absence of institutionalized parties, voters look to other factors, such as ethnicity, when voting. The results from this chapter report that ethnicity plays a limited role in party institutionalization. The most surprising finding from this chapter is the significant relationship between the presence of an official state language and the number of institutionalized parties. For future research, I would like to develop an ethnicity index which would measure the distribution of ethnic groups within a country. I believe an ethnicity index would substantially improve the results in this chapter.

Electoral systems have received considerable attention from political scientists. Many studies focus on the relationship between electoral systems and the number of parties in a country. This chapter, however, examines the influence of electoral systems on the number of institutionalized parties in East Europe. In general, the results from chapter 3 provide no empirical support for the impact electoral systems have on party institutionalization. To improve the validity of this study, I believe additional elections could add salience to studies in this area.
Chapter 4 explores the effect economics has on institutionalized parties. In early elections, my results indicate an insignificant relationship between economic performance and party institutionalization. For the final two elections, my results show that economic variables influence party institutionalization. Gross national income (GNI) per capita was positive in the final two tests, and the results reveal a positive relationship between this variable and the number of institutionalized parties. Central government debt and gross domestic product (GDP) growth were also statistically significant in the final test. In sum, the findings in this thesis suggest that economics are the most salient factor for party institutionalization in East Europe.
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Chapter 1

Party Institutionalization and Ethnicity

Introduction

Over the last decade, there has been considerable debate on democratization efforts in East Europe. Parties are an integral part of established democracies and provide cues to voters in democratic countries. A number of studies have focused on parties in post-communist countries (Taagepera and Shugart 1993; Kitschelt 1992 and Bielasik 2001). Research on party institutionalization in post-communist countries, however, is much more limited (Ordeshook and Shvetsova 1994 and Moser 1999). Party institutionalization is the focus of this thesis, and subsequent chapters will examine specific aspects related to party institutionalization in East European countries. For the purposes of this study, party institutionalization refers to any party that has maintained parliamentary representation in consecutive elections. This approach is similar to the one used by Ordeshook and Shvetsova (1994). In order to gauge the degree of East European party institutionalization, the second chapter examines the relationship between ethnicity and institutionalized parties. In chapter three, I explore the relationship between electoral systems and party institutionalization. Chapter four examines the relationship between economic strength and party institutionalization. The final chapter summarizes my findings and offers some final thoughts for studies on party institutionalization.

Significance of this Research

While much of the post-communist literature has focused on parties in post-communist countries, little research has been conducted on institutionalized parties. Many have focused on the constraining effects of various variables on party development...
more broadly. Some scholars focus on the constraining effects of ethnicity (Kitschelt 1992; Kolst and Tsilevich 1997 and Ordeshook and Shvetsova 1994) while others study the impact of electoral laws on party development (Coppedge 1997; Cox 1997; Lijphart 1994; Moser 1999 and Taagepera and Shugart 1993). Others examine the impact of economic variables on democratization efforts (Aguilar and Pacek 2000; Hamann 2000; Harper 2000; and Pacek 1994). These studies, and much of the rest of literature dealing with party development, examine how variables either increase or decrease the number of parties in a country. Many studies on parties in post-communist countries deal with the number of parties in a system rather than the number of institutionalized parties. This thesis, however, is more concerned with the number of institutionalized parties.

The number of institutionalized parties can be fairly easy to determine, and has been the focus of only a few studies. Much of the research that deals with the number of political parties in post-communist countries simply looks at the number of parties in these countries. Many political scientists have focused on political parties in East Europe (Kitschelt 1992; Pacek 1994; Coppedge 1997; Cox 1997; Orenstein 1998; Moser 1999; Taagepera 1999; Fidrmuc 2000 and Harper 2000), but only a few scholars have explored the presence of institutionalized parties (Ordeshook and Shvetsova 1994 and Moser 1999). The term institutionalized refers to parties that have gained representation in consecutive elections. While the number of parties in parliament represents the number of parties in an election, I believe that one of the primary features of established democracies are institutionalized parties. This study is unique in that the focus here is on the number of institutionalized parties, rather than just the number of parties represented in a parliament.
Hypotheses

There are several hypotheses that I test in the following chapters. In the second chapter, I assess the relationship between ethnicity and party development. Every country in this study has been democratic for only a short period. In the initial democratic elections, parties existed but not in the same manner that parties exist in West Europe or the United States. These parties were all new and except for the former communist parties, based on various issues. Parties in East Europe are less stable and do not have the historical legacies that parties in more developed democracies possess. Kitschelt (1992) argues that in the absence of clear party labels, voters will use other factors, such as ethnicity, when voting. Thus, I would expect societies that are more heterogeneous to have more parties represented in the initial election. Additionally, I expect more homogeneous societies (e.g., Poland) to have no parties based on ethnic cleavages. I hypothesize that while ethnicity might play an influential role in the first election, in a heterogeneous society ethnicity will be less influential in subsequent elections.

Chapter three centers on the relationship of electoral laws on party development. Several authors believe that electoral laws and their mechanical effects influence the number of parties represented in parliament (Duverger 1954; Cox 1997; Taagepera and Shugart 1989 and Coppedge 1997). Mechanical effects refer to the impact certain features (e.g., legal thresholds, district magnitude, and assembly size) have on the number of parties in parliament. For the purposes of this study, legal threshold refers to the amount (percentage) of votes necessary to gain parliamentary representation. District magnitude is the number of seats in an electoral district. The assembly size is simply the
number of seats in parliament. These variables are elaborated in chapter three, and are used to examine the effect electoral systems have on party development. For example, low legal thresholds, high district magnitude, and larger assembly size can all increase the number of parties represented in a parliament. Legal thresholds, district magnitude and the size of the parliament (or what Shugart and Carey refer to as "assembly size") are all used in this chapter. Countries that combine proportional representation (PR) systems and single member districts have mixed member systems. Two countries in this chapter use mixed member district systems (e.g. Hungary and Lithuania). In PR systems, parliaments can employ what is known as a legal threshold to distribute seats in parliament among the competitive parties. If a party receives more than the threshold (which is commonly between 3% and 4% of the popular vote) then that party gets representation in parliament. District magnitude is the number of seats per electoral district. If there are more seats in a district, then parties have a greater opportunity of gaining representation. For this chapter, I hypothesize that district magnitude will not have a substantial effect on party development in these early elections. Despite the numerous authors who have argued that district magnitude is a significant variable (Coppedge 1997; Lijphart 1994; Ordeshook and Shvetsova 1994 and Taagepera and Shugart 1993), I do not expect this variable to be significant. Because there are very few institutionalized parties, I posit that district magnitude may be restrictive in certain parts of a country (e.g., areas where several political parties compete for power) more than others (e.g., areas where very few parties compete for power). The basis of much of this chapter is Moser's (1999) work on electoral systems and its effect on party institutionalization. Ultimately, I expect other variables in this thesis to be more useful in
explaining party institutionalization in East Europe. Therefore, I hypothesize that electoral variables will have only a minimal impact on party institutionalization.

The final substantive chapter focuses on the effect of macroeconomic variables on party development. Several authors suggest that economic variables are very influential in whether or not voters reward or punish incumbents (Lewis-Beck 1986; Millard 1992; Troxel 1993; Pacek 1994; Aguilar and Pacek 2000 and Lewis-Beck and Paldam 2000). When voters reward incumbents, the number of institutionalized parties should increase. Incumbents that have sustained electoral success leads to institutionalized parties. During economic decline, voters typically punish incumbents and therefore the number of institutionalized parties should decrease. The macroeconomic variables that are the bases for this study include: Unemployment rates, gross domestic product (GDP) rates, gross national income (GNI) per capita, the debt incurred by the central government, and the percentage of the population involved in agriculture.

I hypothesize that economic variables such as unemployment rates and GNI per capita rates will have a significant impact on the number of institutionalized parties. More specifically in situations with sustained economic growth, I anticipate an increasing or consistent number of parties. Because people tend to reward incumbents for economic growth, I expect voters to support incumbents in countries with sustained economic growth. On the other hand, I expect to see a decrease in the number of institutionalized parties when economic conditions falter because economic decline often results in higher voter turnout. Subsequently, this increased turnout often leads to the incumbent being removed from office. If voters suspect the economic policies of a party to be the cause of economic decline, then voters will probably punish members of that party. When voters
punish the members of a particular party, it becomes very hard for that party to maintain representation, thereby limiting party development. The number of institutionalized parties should decrease because poor economic conditions will prompt voters to punish incumbents. In addition, voters will seek a change in a government in the hope of improving their economic standing. Thus in countries with struggling economies, it will be more difficult for parties to become institutionalized until the economy improves.

The concluding chapter will explain the significant variables of each chapter. I find that macroeconomic variables are the most salient factors in this study. Since voters are concerned about their financial standing, variables such as district magnitude or legal thresholds offers incumbents little protection from other parties if an economy suffers. I believe that behavioral variables (e.g., economic variables) are more influential than institutional behaviors (e.g., electoral laws) to voters in East Europe. Therefore, I anticipate economic variables to be more significant than all other variables in this study.

Methodology

The methodology that I use in this study is ordinary least squares (OLS) regression. This study employs a cross-national and cross-sectional comparative approach. I use this approach because I want to test the relationship between party institutionalization and several independent variables. This study will cover three different elections in each of the nine countries used in this study. Elections and the countries used in this study will be discussed below.

Institutionalized Parties: How Are They Defined?

There are several ways to operationalize the dependent variable of institutionalized parties. One method would be to determine the number of parties
involved in parliamentary elections. A study could count the number of parties that participated in an election, or the number of parties that were represented in the parliament. Another way is to calculate the number of “effective parties.” Some (Rae 1967) have used this method or variations of this method. One can calculate the effective number of parties based on the percentage of the popular vote a party receives, or the percentage of seats held by a party. This method is effective because it weighs the parties in a parliament so that a party with 90% of the popular vote is not treated the same as a party that receives 5% of the popular vote. In other words under the effective number of parties approach, the number of parties could be the same but the parties could all be different. Because of this reason, I use the method employed by Ordeshook and Shvetsova (1994).

The number of parties within a system can vary tremendously depending on the method chosen. While calculating the effective number of parties can be very useful to some studies, my goal is to assess which variables either help or hinder party development in East Europe. To calculate the number of effective parties does not consider the success of parties in competitive elections. It is possible for the effective number of parties to maintain a certain level, but this method would not indicate the number of institutionalized parties in parliament.

In their study, they focus on calculating the number of institutionalized parties. To measure the number of institutionalized parties, they compute the number of parties that held parliamentary representation in consecutive elections. This figure represents the number of institutionalized parties in a given system. While this method is quite basic, I think it has considerable value for studies in this area. A formula that simply calculates
the number of parties in a country would not capture the variables I wish to study. Thus, for the purposes of this study, I believe this operationalization is the most logical. As previously discussed, the method used by these authors is the most effective and accurate way to determine the number of institutionalized parties in this study.

Another crucial aspect of this study is what parliamentary body to study. There are two houses in every country's parliament so the question is whether to examine both houses, the upper house or the lower house. Most studies tend to focus on the lower house, and since the lower house of parliament traditionally holds most of the law-making authority, I focus on this house in the following chapters. In addition, the upper house tends to have less law-making responsibility than the lower house. Therefore, all of the data in this thesis come from electoral results for the lower house of each country's parliament.

_Elections Used in this Study_

One of the drawbacks of this study is the limited number of elections that have occurred. Most of these countries have been democratic for just over a decade. For a majority of countries in this study, the election that I study is only the second, or third, democratic election held. Thus, the results of this study should be understood in this context. To investigate the development of political parties in East Europe, I use the three most current elections in each country. Obviously, it would be impossible to have an institutionalized political party in the first democratic election (with the exception of former communist parties). Also, variables such as the economy and electoral laws might not have an impact on the early elections. In the initial election, voters in many post-communist countries have focused on punishing the former communist parties.
Because voters focused primarily on ousting the communist regime, economic and electoral variables were not influential in this election. Therefore, I used data from the three most current elections to study party institutionalization. In most of the countries only four elections have occurred, so I am limited in the number of elections I can study.

Data from elections between 1994 and 1996 are the bases for the first election in this study. The second election is based on data from elections that occurred between 1997 and 1999. The final elections to be studied are the ones that occurred between 2000 and 2002. Not every country holds their elections simultaneously; therefore, it is necessary to have a span of two years so that each country will have had an election during this time period. Three separate elections do not constitute a longitudinal study, but in almost all of these cases four elections is the most any country has had. In addition, much of the research has tested various variables (e.g., district magnitude, assembly size, and macroeconomic variables) but since the countries used in this study have held only a limited number of democratic elections, the results from this study are limited.

Sample Countries

Selecting countries is not an easy task. In this study, I include Poland, the Czech Republic, Hungary, Romania, Slovakia, Latvia, Lithuania, and Estonia. Many of the East European countries have been examined in previous studies that are related to party development (Kitschelt 1992; Lijphart 1994; Ordeshook and Shvetsova 1994; Coppedge 1997; Moser 1999; Taagepera and Shugart 1993; Aguilar and Pacek 2000; Harper 2000 and Roper 2003).
There are some countries in this region that I could have included but for various reasons did not. Slovenia and Bulgaria were initially included but I eliminated them because of a lack of data. Generally, countries in the former Soviet Union (FSU) were not used in this study because the democratization process and the political development of these countries are much different from those in East Europe. King (2000) argues that there are fundamental differences between countries in East Europe and the former Soviet Union (FSU). The key primary difference between countries in East Europe and countries in the FSU is the political development and democratization processes that have taken place in both countries.

**Thesis Overview:**

Chapter two examines the relationship between the ethnic heterogeneity of a country and the number of institutionalized parties. The ethnic make-up of a country refers to the number and size of different ethnic groups within a country. As such, ethnic heterogeneity refers to multiple ethnic groups and ethnic homogeneity refers to a country with fewer ethnic groups. I expect to see more institutionalized parties in countries that are more heterogeneous. With more ethnic groups, parties may be held together by ethnicity and be stronger than parties lacking this bond. In more homogeneous countries, I expect the number of institutionalized parties to be less because fewer ethnic groups should lead to fewer institutionalized parties. Kitschelt (1992) argues that in the absence of established parties, citizens will depend on collective identities (e.g., ethnicity) to influence their political preferences. Therefore, I expect the ethnic make-up of a country to play a role in the institutionalization of parties.
Chapter three tests the relationship between electoral variables and party institutionalization. Many scholars have argued that electoral laws and electoral systems influence the number of parties represented in parliament (Taagepera and Shugart 1993; Coppelge 1997; Ordeshook and Shvetsova 1994 and Cox 1997). In this chapter, I look at electoral variables such as: Assembly size, legal thresholds, district magnitude, and government type. When studying the effects of electoral systems on party institutionalization, my findings diverge from the findings of previous authors. The countries that I use in this thesis have had only three or four elections in their short democratic history. Therefore, I argue that electoral effects have yet to cause the constraining or increasing effects on institutionalized parties.

The fourth chapter examines the relationship between economic variables and party institutionalization. Some political scientists have argued that economics is a salient factor to voters in post-communist countries (Pacek 1994; Aguilar and Pacek 2000). Others, meanwhile, contend that the impact of economics in post-communist countries is limited (Hamann 2000; Harper 2000 and Roper 2003). The results from this chapter suggest that economics has a stronger impact on party institutionalization in later elections more than earlier elections. Still, the results from this chapter suggest that economics plays a limited role in party institutionalization.

The final chapter provides a summary of the key findings reported in the three substantive chapters. These results will illustrate which variables are most important for each chapter. I hypothesize that ethnic and electoral variables will have less of an impact on party institutionalization than economic variables. I believe economic variables will be more significant because the impact of electoral effects take time to develop.
Additionally, ethnic variables will be less important than economic variables because I expect more people to be concerned with economic growth than supporting their ethnic group. Further, citizens will have more to gain through supporting incumbents who improve the economy rather than a party that is strictly concerned with representing the interests of an ethnic group. Parties that are responsible for improving the economy will also appeal to more people than parties that benefit only a small sect of the population.

**Overview of Chapter Two: Party Institutionalization and the Ethnicity**

When a country moves from communism to democracy, there are a number of issues that the country must address. One of the most daunting tasks is to establish democratic institutions. In the absence of established party labels or experienced politicians, citizens in East Europe look for other voting cues. It seems logical that ethnicity would be a factor in countries that are heterogeneous. For more homogeneous countries, I expect that ethnicity would play a smaller role in the development of political parties.

Only a few variables are available to explain a country’s heterogeneity. Obviously studies can use the number of ethnic groups but this could neglect other aspects of ethnicity (such as the distribution of ethnicities within a country). In addition to the number of ethnic groups, I also use the presence of an official state language in this chapter. I had originally planned to use state religion, but no state in this study had an official religion. I also use official state language as a nominal variable to assess the relationship between these variables and the number of institutionalized parties. An official state language may be present in more homogeneous countries. The use of this variable is another way to assess the implications of ethnicity in East European countries.
Heterogeneous countries are less likely to have an official language since it would be
very difficult for one ethnicity to implement an official language over the language of
another ethnicity.

Overview of Chapter Three: Party Institutionalization and Electoral Systems

In chapter three, I test the relationship between the number of institutionalized
parties and the electoral system. Permissive electoral systems have higher district
magnitudes, low legal thresholds, large assemblies, and PR systems. My central
hypothesis is that more permissive electoral systems leads to an increase in the number of
institutionalized parties.

There has been considerable research on the number of parties as a result of the
electoral system. In chapter three, I use district magnitude, legal threshold, government
type, electoral system, and assembly size to test the significance between these variables
and the dependent variable. To evaluate the relationship between party
institutionalization and the independent variables I use OLS regression. The results of
chapter three indicate a weak relationship between some of the independent variables and
the dependent variable. I believe that the variables in this study were statistically
insignificant because it is too early in the democratization process for electoral systems to
have a substantial impact on party development. In future elections, I expect electoral
systems to play more of a dominant role in party development. The details of these tests
are reported and elaborated in chapter three. Ultimately, I find that electoral systems
have a weak influence on the number of institutionalized parties.
Overview of Chapter Four: Party Institutionalization and the Impact of Macroeconomic Variables

The final substantive chapter deals with the relationship between economic variables and the effect on party institutionalization. A strong economy can help incumbents obtain electoral success while a weak economy can prompt voters to punish incumbents. In many elections, voters use retrospective voting to reward (punish) incumbents for economic growth (decline). Under retrospective voting, voters focus on factors such as the results of an incumbent's representation rather than their policies. The variables in this chapter gauge a number of aspects of economic strength. Macroeconomic variables are utilized to assess economic strength during the last decade. The variables included are: Unemployment rates, GNI per capita, central government debt incurred, and GDP growth.

To test the relationship between the dependent variable and the independent variables I use OLS regression. Economic growth often translates into electoral success for incumbents while economic decline usually results in incumbent defeat. Most voters are more concerned with their pocketbook (or their financial status) as opposed to other variables like ethnicity. I expect economic variables to have more of an impact on the number of institutionalized parties than variables in the previous two chapters. In future elections, I expect economic strength to continue to have a substantial impact on party development in East Europe.

Party institutionalization has received substantially less scholarly attention than research on other issues. For example, several scholars have examined the impact of voter choice on party success. Some political scientists have focused on the role of
ethnicity (Kitschelt 1992; Kolst and Tsilevich and Agh 2000) in post-communist politics and others have examined the impact of electoral laws on the number of parties in parliament (Taagepera and Shugart 1989; Lijphart 1994 and Moser 1999). Regardless of the specific issues, few studies have solely focused on party institutionalization in East Europe. The following chapters assess the impact of ethnic, electoral, and economic variables on party development in East European countries.
Chapter 2

Party Institutionalization and Ethnicity

Introduction

The democratization of states in East Europe and the former Soviet Union (FSU) has received substantial attention from scholars (Taagepera 1999; Ordeshook and Shvetsova 1994; Kitschelt 1992 and Bielasik 2002). Many of these countries have experienced ethnic tension and some severe ethnic violence. This chapter examines the relationship between heterogeneity and the development of parties. An institutionalized party, for the purposes of this study, refers to political parties that have been represented in parliament in consecutive elections. I argue that as the number of ethnic groups increases, so will the number of parties in a system. However, the heterogeneity of a state will have a minimal impact on the institutionalization of parties because ethnic parties that are explicitly concerned with the promotion of a single ethnic identity enjoy limited success (Gunther and Diamond 2001).

One of the distinguishing characteristics of post-communist countries is the multiple ethnic groups that reside within each state. The Czech Republic, Bulgaria, and Slovakia each have several ethnic groups within their society. With the exception of Poland, every country in this survey has at least five major ethnic groups. They range in size, backgrounds, and political experience—all of which influences the participation of these groups in the political process. In some of these states, there are several ethnic groups that are comparable in size while in others there is one dominant group.
Literature Review

Research on parties has been diverse and has focused on several variables such as heterogeneity and the number of effective ethnic groups. This chapter investigates the causal connection between ethnic groups and how the ethnic composition of a country impacts the development and formation of parties. There are a number of theories that attempt to explain how parties coalesce in East Europe and the FSU. I will examine how party institutionalization in post-communist states is affected by the degree of heterogeneity of a state.

Ethnicity and Campaigning

Gunther and Diamond (2001) discuss some general characteristics of ethnic political parties. They argue that ethnicity does play a role in party development; although, parties primarily based on an ethnicity do not usually enjoy either widespread or lasting success. Because parties based on ethnicity are focused on the redistribution of assets to their specific group, they do not try and appeal to the entire population, as do many broad-based political parties. Ethnic parties can have an almost xenophobic view of citizens who are not members of their particular ethnicity. This exclusiveness shared by some of these parties often leads to the party’s demise. Kitschelt (1992) agrees with Gunther and Diamond’s arguments about these parties’ exclusive approach to campaigning, and all of them concur that these parties are primarily concerned with obtaining benefits for their particular group.

Studies such as Kitschelt, and Gunther and Diamond are useful for several reasons. By understanding the habits of parties, we will be more apt to develop predictive models for party success or failure. Additionally, the cohesion of these ethnic
groups will also play a role in party formation. In particular, if an ethnic group is politically mobilized, then they will be more likely to sustain their party. On the other hand, if a group is more apathetic then party formation will be less dependent upon the number of ethnic groups. Barany (2000) discusses this scenario when he studies how the Roma have been under-represented in many East European countries.

*Ethnicity as a Political Cleavage*

Ordeshook and Shvetsova (1994) find that party formation depends on social cleavages including ethnicity. They postulate that in heterogeneous societies parties will grow in numbers and in stability. Ordeshook and Shvetsova go on to say that when ethnic fractionalization decreases and district magnitude increases, there will be an increase in the number of effective parties. The findings of this study were interesting, but were limited because it lacked an ethnic concentration index and the statistical significance was relatively low (.111). An ethnic concentration index could better explain party stability because more densely distributed ethnicities should lead to more institutionalized parties whereas a sparsely distributed ethnicity should be more difficult to mobilize. In addition, if an ethnic group is equally distributed throughout a country, the ethnicity may not be able to gain representation for the group. On the other hand, if an ethnic group comprises a large percentage of an electoral district, then the ethnic group may be able to elect a candidate who will carefully protect the interests of that ethnicity.

Kitschelt's (1992) work focuses on the study of ethnicity. He argues that political divisions depend on several factors: Ethnicity, race, and regional collective identities. After the inception of democracy in East Europe, Kitschelt finds that in the absence of
established parties, citizens looked to factors like collective identities, or ethnicity as a guide for voting. He also finds that ethnicity is more influential in some countries—Romania and Slovakia—than others. In the case of Romania, Kitschelt argues that the number of ethnic divisions in this country will lead to weakened ethnic parties, and a rise in power for ex-communist parties.

Taagepera (1999) argues that there is a relationship between electoral system rules, ethnicity, and the number of parties. More specifically, Taagepera finds an increase in the number of parties when electoral rules do not severely restrict party representation (i.e., lower legal thresholds or few electoral restrictions) and when a society has a number of ethnic cleavages. His research, however, does not exclusively focus on institutionalized parties.

*Tabula Rasa and the Structure Perspective*

There are several perspectives on party development. Bielasik (2001) argues that party development in East Europe and the FSU exists in two forms: tabula rasa, and the structure perspective. Tabula rasa emphasizes the newness of political parties, and posits that party development in these countries is in a constant state of flux. Many of these parties are weak and as a result these parties cannot maintain representation. Therefore, I believe that ethnicity could be an issue that causes parties to splinter or it could promote party cohesion.

The structure perspective describes linkages between parties and various issues. This perspective can be illustrated through issues that are specific to particular ethnic groups. According to this theory, parties represent various issues and whenever these issues reach the political agenda, representation will be witnessed through certain parties.
For example, if an issue has a direct effect on ethnic groups (i.e., political rights for an ethnic group, the recognition of languages other than the state's official language, social welfare programs, etc.) an ethnically-based party should represent the needs of ethnic groups. This theory can be applied in this study because certain parties represent particular ethnic groups. According to this theory, if these groups were to be threatened by some type of legislation or governmental action there would be factions in place to protect any group that faces potential harm.

Orenstein (1998) goes on to describe different types of parties. The first type, ideological/purposive, are dependent upon a charismatic individual and/or function as "political clubs," and attempt to broadly attract a number of voters. Ethnically based parties, in order to be successful, need to adopt broad strategies. Unfortunately, these parties are typified by exclusive policy stances. The second type, social-democratic communist successor include members/voters that span socio-economic cleavages such as trade unions, farmers, and new business elites. Ishiyama (1997) also finds that ex-communist parties that employ broad or nation-wide strategies will be more successful in the future than parties that are more specific.

Ishiyama (1997) and Orenstein (1998) find that parties seek electoral support through appealing to a national audience. This strategy seems effective in a homogenous society, but is more difficult to utilize if the national audience consists of several ethnic groups, such as in the case of Latvia. According to Kolst and Tsilevich (1997), the parties in Latvia attempted to mobilize electoral support by manipulating nationalistic sentiment. As described by Kolst and Tsilevich, ethnic differences and under-representation can limit democracy's progress; thus, the need to broaden our
understanding of these problems is crucial. Parties that represent a particular ethnic group are common throughout East Europe. If each ethnic group had its own party, then decision-making would require additional time, and coalition formation could become further complicated.

One of the key determinants to a party’s success is their ability to develop linkages to voters. Kitschelt and Smyth (2002) argue that linkages are crucial to a party’s future. Specific to this study, Kitschelt (1992) has argued that parties face demise when they fail to reach the public at large. While Kitschelt argues that voter linkages are crucial to a party’s future, these parties must reach out to the broader public. This explains why broad-based strategies are preferred, and this also explains why ethnically based parties enjoy limited success.

*Hyper-Pluralism and its Effect on Party Development*

While the effects of party success or failure and its impact on party cohesion have been discussed, the representation of parties has implications on the stability of parliament. Many authors (Simon 1996 and Olson and Norton 1996) argue that hyperpluralism causes parliaments to be in disarray, and impedes the progress of parliamentary committees. Hyper-pluralism refers to the over-representation of parties, or when too many groups are represented and the groups possess sufficient power to retard governmental action (Edwards, Wattenberg, and Lineberry 2002). Hyper-pluralism can occur if each ethnic group mobilizes its respective populations and forms a party to further its interests. In some cases, hyper-pluralism has prevented governments from functioning.
The case of Poland, in the early democratization process, provides an excellent example. Simon (1996) uses three Polish elections to compare party fragmentation and representation, and finds that between 1991-1993, twenty-nine political parties were represented in the Sejm. Therefore, in the case of the 1991 Sejm, nine months passed before a governing coalition was formed. While this was not due to ethnicity, it certainly demonstrates the consequences of hyper-pluralism. Obviously, representation is important, but over-representation can lead to a parliamentary stalemate. If every distinct group organizes a party, then gridlock will result when so many voices compete for maximum gains through governmental action—namely re-distributive programs and more favorable electoral laws.

Methodology

This chapter examines the institutionalization of parties in East European countries. These countries will be tested with variables that are related to ethnicity and the ethnic make-up of these states. Variables related to ethnicity are used in this chapter to analyze the relationship between ethnicity and the number of institutionalized parties.

The dependent variable in this chapter is the number of institutionalized parties. The initial election in these countries witnessed numerous parties participating in parliamentary elections. However, the number of parties in parliamentary elections decreased and stabilized in subsequent elections. Several authors have studied how the number of parties are affected by ethnic, electoral, or economic variables, (Duverger 1954; Cox 1997; Coppedge 1997; Gunther and Diamond 2001; Moser 1999 and Kitschelt 1992) but this study is interested in the institutionalization of political parties. Ordeshook
and Shvetsova’s (1994) method was used because it seems logical, and because it most accurately measures party institutionalization.

Also, this study is designed to be not only comparative, but also longitudinal. By using a longitudinal approach, any temporal events will be eliminated as potential influential variables. To understand the development of parties, I have used the three most current elections. Since this study is focused on party formation, the data used in this chapter will be drawn from three different time periods: the second election after the inception of democracy (1994-1996), a mid-decade election (1997-1999), and a final election between 2000 and 2002. Through studying these three elections, I am able to rule out candidate-centered parties and parties that experienced success in only one election. In most of these cases, only a few of the parties were successful in the second elections.

My model will employ a number of independent variables. State languages and the number of ethnic groups in each country are the two primary variables used in this chapter. If a state has a constitutionally recognized state language, the variable is coded “1” and “0” when there is no official language. The presence of a state religion was originally included, but every country in this study was without an official religion, and thus, I omitted this variable.

The number of parties in consecutive elections is based on data from various web sites. This variable, in addition to the other variables previously mentioned, will be compared with the number of parties in a state. Census data not only provided the number of ethnic groups, but in most cases, it also offered the percentage of the population that belonged to the various ethnic groups. A number of approaches have
been used in previous research to compute the number of parties in parliament (Rae 1967 and Ordeshook and Shvetsova 1994). The primary focus in this research is to examine the impact state languages and ethnicity play in party development. To compute the number of institutionalized parties in parliament, I use a method similar to Ordeshook and Shvetsova’s (1994). I consider institutionalized parties to be any party that has parliamentary representation in consecutive elections (no matter the percentage of seats).

The first variable in this test was language. An official state language can be an indication of the ethnic make-up of a country. For example, a country with few ethnic groups or one dominant ethnic group, may be more inclined to implement an official national language. More heterogeneous countries, on the other hand, should be less likely to declare an official language. More ethnic groups should lead to more disagreement on an official language or the ethnicities may believe that no language should be the official language of the country. I anticipate that the presence of an official language will have a negative influence on the number of institutionalized parties. Because I believe that an official state language is an indicator of an ethnically homogenous society, I expect that countries should have more institutionalized parties when there is no official language.

The number of ethnic groups will be used as an interval variable to establish a basis for this study. The primary focus of this chapter is to examine the relationship between the number institutionalized parties and ethnicity (I expect to find more institutionalized parties in heterogeneous societies, and fewer institutionalized parties in more homogeneous societies). More ethnic groups are a reflection of social cleavages, and most of these heterogeneous states have parties that are relatively unstable.
Findings

I employ ordinary least squares (OLS) regression to examine the relationship between ethnicity and party institutionalization. The results of the test between state language and the number of institutionalized parties are also reported in the following tables. Also, in table 2.1 the dependent variable, the number of institutionalized parties that gained representation in this election, is compared with the number of ethnic groups within a state. In the final two tests I use data from recent elections to examine the relationship between ethnicity and the number of institutionalized parties. Results from this table report my findings for the first test.

Party Institutionalization Between 1994-1996

<p>| Table 2.1: Institutionalized Parties and Ethnicity between 1994-1996 |</p>
<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>.029*</td>
<td>-1.145</td>
</tr>
<tr>
<td>Ethnic Groups</td>
<td>.123</td>
<td>-.616</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.734</td>
<td>--</td>
</tr>
<tr>
<td>n = 9</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*p<.05

The first variable in this study was the presence of an official state language. This variable reported whether or not each state had a state language. For the first test, the presence of a state language was significant to the 95% level. The standardized beta coefficient for this variable was -1.145 and this value represents a negative relationship between this variable and the number of institutionalized parties. I expected this variable to be significant in early elections, and I predicted that the relationship would be negative. The results here demonstrate that countries without an official state language
have more *institutionalized* parties whereas the number of *institutionalized* parties is fewer in countries with an official language.

The second variable used in this study is the number of ethnic groups within a country. The findings in this test reveal a standardized beta coefficient of .123 which illustrates a positive relationship. I had anticipated countries with more ethnic groups to have more institutionalized parties while countries with fewer ethnic groups would have less institutionalized parties. If significant, the results would suggest that as the number of ethnic groups increase so do the number of developed parties. Since this variable was insignificant, however, the impact the number of ethnic groups has on party institutionalization is unclear.

The findings from the overall model suggest that there is a strong correlation between the independent and dependent variables. The adjusted $R^2$ of this model was .734 which illustrates a strong positive relationship. However, with only two variables in this model I suspect problems with these variables. This value is relatively high since only two variables are used in this test, and especially since only one variable was statistically significant. In the next test, I expect a different result for the presence of an official language, but I anticipate the impact of ethnic groups to remain about the same. In addition, I anticipate the adjusted $R^2$ to be much lower than it was in this test.

*Party Institutionalization Between 1997-1999*

The information from the first election is important, but is limited in the fact that it represents the first elections in the sample. Therefore, another study was done to determine if the variables were time-sensitive, or if these relationships are static throughout the 1990s. Table 2.2 reports findings for elections between 1997-1999. By
using this data, we will get a better understanding of the effects that have occurred since
the first democratic elections in these states.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>.257</td>
<td>-.477</td>
</tr>
<tr>
<td>Ethnic Groups</td>
<td>.574</td>
<td>.226</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.198</td>
<td>--</td>
</tr>
<tr>
<td>n = 9</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

The first independent variable in this study was language. The results from the
first test report a standardized beta coefficient of -1.145. The findings here again suggest
that countries without an official state language should have more institutionalized
parties. Because this relationship was statistically insignificant, I am unable to say with
certainty that official state languages increase the number of developed parties in a
system. I had hypothesized that an official state language should lead to more
institutionalized parties, and I am not surprised that the beta coefficient was negative. In
early elections I expect variables like language and ethnicity to play a greater role than in
later elections. This negative standardized beta coefficient suggests that the number of
institutionalized parties is greater in countries with no official language. I believe that the
salience of an official language declines in subsequent elections and this is why the
variable is insignificant in this test. Another plausible explanation is that the presence of
state languages has a limited effect on party institutionalization.

The influence ethnic groups have on party development for the first test was quite
minimal. Findings from this second test were similar to the previous test. The number of
ethnic groups had a standardized beta coefficient of .174 in the second test. The coefficient slightly increased from the first test, but the relationship was positive in both tests. The findings here suggest that a positive relationship exists between the number of ethnic groups and the number of developed parties. Much like the first test the results here were insignificant and cannot support any definitive conclusions from these data.

The adjusted $R^2$ of this test was much lower than the first test. For this test the adjusted $R^2$ was just .193 while the previous test had an adjusted $R^2$ of .734. I believe that without any significant relationships in this second test, the results suggest that the influence of ethnicity on party development wanes over time. Furthermore, I suspect that problems in the results from the first test caused the high adjusted $R^2$, but the results from the second test are more representative of the true relationship between the number of institutionalized parties and ethnicity.

**Party Institutionalization Between 2000-2002**

The third model tested data from elections since the year 2000. I hypothesize that the results should be similar to the results of the previous tests. As previously discussed, I expect that ethnicity should have less of an impact on party institutionalization than in previous elections. I expect that political learning should increase and voters will be more concerned with factors other than ethnicity.
The results of the first two tests for the presence of an official state language were mixed. Both tests reported a negative relationship but only the first test was statistically significant. In the third test the standardized beta coefficient was -.240. This variable was again insignificant, so the impact of this variable on the dependent variable was limited. If this relationship was significant, the results indicate that countries with an official language should have fewer institutionalized parties.

The relationship between the number of ethnic groups and the number of institutionalized parties was again statistically insignificant. For this test the standardized beta coefficient was .098 which reveals a positive relationship for these two variables. The coefficient value suggests that the number of ethnic groups results in an increase in the number of institutionalized parties. Without statistical significance, however, my results do not provide any solid conclusions as to the role ethnicity plays in the institutionalization of parties in East Europe.

The model’s adjusted $R^2$ has decreased since the first test. In the first election, the overall $R^2$ was .734 and this decreased to .193 in the second study, and continued to decrease in the final test to -.166. From these findings one thing is clear: Ethnicity plays a decreasing role in party institutionalization as the number of democratic elections
increases. My explanation for this trend is that voters focus on ethnicity in early elections but with political learning they focus on more important issues. Thus, the role of ethnicity will continue to decrease in future elections for East European countries.

**Conclusion**

Party institutionalization is an important variable in political science research and much of the current research has looked at areas such as: The economy, electoral systems, and ideology. This chapter has sought to contribute to the contemporary research by looking specifically at ethnic variables in comparative analysis of states in East Europe throughout the 1990s. During the 1990s, East Europe has been very unstable and the lack of established parties may be a reason why. Because of this, the impact of party institutionalization can help us develop a clearer picture of democratic development. If democracy becomes more stable, then perhaps other areas of life can also grow in stability.

The variables included in this chapter were by no means exhaustive. The variables included were simply indicators that showed some diversity among other variables for Eastern European states. Ethnic groups are one of the best indicators of a state’s diversity. For future research, perhaps a concentration index could be developed to show how dispersed or clustered these different groups are. If an ethnic group is distributed throughout the state, then it seems likely that they would receive less representation than if they were more concentrated.

The literature mentioned earlier in this study provides a starting point for research in this area. Because of the changes in the independent variables, it seems as though the parties involved in this study are not firmly established, and are still experiencing signs of
change. Therefore, the research done by Bielasik (2001) and Kitschelt (1992) seem to be most appropriate to describe the evolving nature of this system. Bielasik presented two arguments: tabula rasa and the structure perspectives. The tabula rasa argument posits that new democracies have parties that are nascent and are increasing. The results from this chapter suggest that the number of institutionalized parties is changing as well as the parties in parliament. While more research is necessary to fully support this perspective, the nature of these political systems seem to fit best with the principles of tabula rasa. Kitschelt argues that ethnicity plays a substantial role in early elections because voters have few other indicators to influence their voting. This chapter has contributed to political science research by arguing that ethnicity plays a very limited role in party institutionalization in East Europe. As democracy continues, voters develop tendencies or expectations of certain aspects of the government. I believe one of these aspects is the economy, and this variable will be examined in chapter four.
Chapter 3

Party Institutionalization and Electoral Systems

Introduction

Party institutionalization can be influenced by a number of variables, many of which were discussed in the previous chapter. Ballot structure, seat allocation procedures or formulas, and general electoral rules impact the number and types of parties within a state. This chapter will examine party institutionalization with respect to electoral systems. An electoral system is the method by which votes are translated into seats and includes issues such as ballot structure, electoral formulas and district magnitude. This chapter examines the relationship between institutionalized parties and electoral variables.

Party development in East Europe has received a great deal of attention. One of the reasons for this is the democratization and consolidation process in these countries is influenced by the development of fully functioning parties. This chapter examines which electoral system is most conducive to party institutionalization. Do legal thresholds limit the number of functioning parties within a state? What are the consequences for seat allocation procedures? Do mixed systems, such as those in Lithuania and Hungary, limit parties like single member districts do? These questions and the effect of other variables such as assembly size and district magnitude will be examined in the following sections.

The first section of this chapter offers a summary of existing research. Several political scientists have examined the impact electoral systems have on the number of parties (Duverger 1954; Taagepera and Shugart 1993; Lijphart 1994; Coppedge 1997 and Cox 1997) but research on electoral systems and party institutionalization is much more
limited. Some argue that assembly size or district magnitude can increase the number of parties represented in a system (Taagepera and Shugart 1993) while other scholars have claimed that mixed electoral systems restrict the number of parties in a system (Coppedge 1997). This chapter tests several variables with the dependent variable, the number of institutionalized parties. The third, and final, section will compare the literature with the results of this chapter to either support or reject the findings presented in the second section.

Literature Review

Electoral systems and their impact on the number of parties has received substantial attention from political scientists. The impact of different seat allocation formulas can have a strong effect on the number of parties within a system. Proportional representation (PR) systems tend to be more permissive and allow for more parties than other systems (Duverger 1957 and Cox 1997). In a PR system, several states have established a minimum percentage of popular votes necessary to gain seats in the legislature. This minimum percentage is known as a legal threshold. Legal thresholds can also play a role in party institutionalization. Specifically, several scholars have argued that legal thresholds have a definite impact on the number of parties in parliament (Taagepera and Shugart 1989 and Cox 1997). Scholars have argued that lower thresholds will offer more opportunities for parties to gain representation thereby increasing the number of parties involved in the process (Coppedge 1997; Cox 1997 and Taagepera and Shugart 1993).

The effect of electoral systems on the number of parties in parliament has received considerable attention from political scientists. Research on this area has
covered a number of variables related to electoral systems: Assembly size, district and/or average district magnitude, legal thresholds and ballot structure. Ballot structure refers to the whether or not there is one round of elections or multiple rounds. In some states, multiple rounds allow voters to strategically vote to help their candidate and hurt the opponent. For some of these systems, a plurality is the minimum requirement where others require a majority vote to win.

**Electoral Systems**

Duverger (1957) in his seminal work *Political Parties: Their Organization and Activity in the Modern State*, makes a number of compelling arguments regarding electoral systems and how they affect the number of parties in parliament. He argues that there are three types of party systems. The first type of party system, the single party system, exists primarily in dictatorial regimes and is not of interest to this study. Second, Duverger writes on two party systems and how they evolve. The final type of party system, multi-party systems, is another category of contemporary democracies.

Political parties do not simply appear upon the inception of democracy; rather, the steps taken by a state dictates the number of parties that will be effective in an electoral system. For states with a simple plurality and single ballot system, the likely result will be two powerful parties. This occurs because voters tend to vote out the least established party, which is often the newest party. Thus, even though several parties may compete in the initial or early elections, the success of most parties will be short-lived.

A multi-party system will emerge under different circumstances. Rather than single member districts, multi-member PR systems produce multi-party systems. When France went from a single member district system, with two dominant parties, to a
proportional representation system it witnessed the multiplicative effect of this new
electoral system (1957). This effect is not always instantaneous, but according to
Duverger it will eventually occur. While PR leads to an increase in the number of
parties, the switch from a single ballot system to a multiple ballot system adds to this
effect. Of particular interest to this study, he argues that the increase in parties will most
likely result from new parties instead of divisions in the existing parties.

In his study of Russian party development, McFaul (2001) finds that the state’s
lower house of parliament, the Duma, is limited in its power. The Duma has one-half of
its membership elected through PR lists and the other half elected from single member
districts. The electoral reforms taken by those in the Duma have managed to restrict the
influence of political parties. Essentially, the author finds that in the case of strong
executives and weak parliaments, the institutionalization of political parties will be
hindered.

Mechanical Effects

Several authors have discussed mechanical effects of electoral systems such as
assembly size, district magnitude and seat allocation procedures (Cox 1997; Duverger
1957; Taagepera and Shugart 1993 and Ordeshook and Shvetsova 1996). Assembly size
is one of the most basic components of any electoral system. The size of a country’s
parliament can provide either greater or lesser representation, depending on the ratio
between the state’s population and the size of the assembly. A seat allocation procedure
refers to the distribution of seats through elections. The countries in this chapter use
either mixed electoral systems, with a combination of PR and single member districts or
PR systems. The variables, depending on the allocation procedure, may be interlinked but in theory they may be studied independently.

District magnitude is used in several studies, and is defined as the average number of seats per electoral district. Taagepera and Shugart (1993) argue that politicians who want to increase the representative nature of an electoral system can either increase the district magnitude of a country or increase the assembly size. District magnitude, according to Coppedge (1997), is a significant indicator of party fractionalization. Similar to the constraining effects of Duverger’s law regarding PR systems, he argues that lower district magnitudes will lead to fewer parties. The logic behind this is that lower district magnitudes present fewer opportunities for parties to gain representation while higher district magnitude provides more opportunities for representation. The psychological and mechanical effects of district magnitude both play a role in this study. Psychological effects refer to the impact electoral systems have on voters, while mechanical effects are related to the translation of votes into seats (1997). Coppedge also finds no statistical significance for legal thresholds, which will be discussed later.

Many political scientists, including Coppedge and Lijphart (1994), have argued that district magnitude has a significant impact on party institutionalization. However, other variables such as electoral formulas have also influence party institutionalization. According to Coppedge and Lijphart, electoral formulas exist in three primary forms: PR, semi-proportional systems, and majoritarian systems. Not only does Lijphart’s study examine district magnitude, it also examines assembly size. Much like other authors, I contend that as the average district magnitude increases so will the number of parties in the parliament.
Taagepera and Shugart (1989) posit that legal thresholds have a limiting effect on party institutionalization. By imposing restrictions on party representation, it is easy to see why thresholds restrain the number of parties represented in a parliament. States with explicit legal thresholds are common in East Europe. When there is no set threshold, Taagepera and Shugart state that there are other mechanisms in place which limit the number of parties. The authors go on to say that low district magnitude is the equivalent of high thresholds because lower district magnitudes will constrict the number of seats available. Lower legal thresholds are more permissive because this lowers the minimum requirement to gain representation: It is much easier to get 1% or 2% of the popular vote rather than 4% or 5%—which is common in the states in this chapter. The findings by Ordeshook and Shvetsova (1994) are very similar to those reported earlier. Ordeshook and Shvetsova also find that permissive electoral systems (i.e., systems that have lower legal thresholds and higher district magnitudes) tend to witness more parties than restrictive electoral systems.

Taagepera and Shugart (1993) test a variation of district magnitude called effective district magnitude. These scholars calculate effective district magnitude in the same manner which scholars determine effective number of political parties. Effective district magnitude is a modification of both district and average district magnitude which takes into account extreme cases of district magnitude. This variable is used to obtain a more thorough understanding of district magnitudes.

Electoral Systems

diversity. He finds that the number of parties depends on the "permissiveness" of a state's electoral system. My study is interested in the factors that influence party institutionalization, and Cox's work gives a number of variables that affect the number of parties in parliament. According to Cox, a "permissive" electoral system exists in PR systems, while single member districts have the similar constraining effect described by Duverger and others. PR systems are more "permissive" because they typically provide more opportunities for weaker parties to gain representation through lower legal thresholds, higher district magnitudes, and the system itself. The system allows for more representation because it is easier to gain representation in a PR system rather than a single member district system. A PR system usually presents a better chance for new or weaker parties to gain a percentage of votes instead of the latter system in which a party must gain either a plurality or a majority.

Methodology

To study party institutionalization, I operationalize the dependent variable as any party that has gained representation in consecutive elections. Many political scientists have used the "effective" number of political parties but this approach severely limits the number of parties in these systems. Also, by using this method the purpose of this chapter would be missed. If this study was specifically testing the number of parties in a system then perhaps this method could be a better indicator of statistical significance. This study, however, is concerned with the number of institutionalized parties in a system and to determine this, I believe it is necessary to include any party that has gained representation in more than one of the elections in this study. Ordeshook and Shvetsova (1994) used an approach similar to this when they counted any party that had participated
in consecutive elections and received at least 1% of the popular vote. This does effectively count the number of institutionalized parties, but overlooks the internal changes (i.e., gaining or losing charismatic leaders) that occur in these parties.

As mentioned before, I will use the number of parties that have held representation in more than one of the elections in this study. The institutionalization of parties is largely based on the presence of these factions in consecutive elections, but the party label is also an important characteristic of institutionalized parties. Thus, this chapter will gauge how many parties have participated in elections and consecutive elections by examining the repetition of party labels in these elections. Further, institutionalized parties are any party that has gained representation in consecutive elections, and one of the easiest ways to identify institutionalized parties is through party labels.

The first independent variable to be studied is the assembly size of each country’s lower house. More populous states should have larger parliaments than less populous states. The contention is that larger populations will lead to larger assemblies. For this study, the importance of this variable will be the effect assembly size has on the number of institutionalized parties. I argue that states with larger assemblies will have more parties that are institutionalized.

The next variable to be studied is the legal threshold. Legal thresholds play an important role in the translation of votes into seats. Most states use a 4% or 5% legal threshold which means that a party must reach this threshold before seats are allocated. Many scholars, (Taagepera and Shugart 1989 and Cox 1997), argue that higher legal thresholds will constrict the number of effective parties. In many instances, the ruling
party will institute a legal threshold or increase the existing thresholds to maintain their representation in the assembly. Similar to others, I argue that a higher threshold will result in fewer institutionalized political parties.

As many of the authors have suggested, party institutionalization is closely associated with district magnitude. District magnitude is calculated by dividing the total number of electoral districts by the number of seats in the lower house of each state’s legislature. This variable is calculated for each election so that any changes in the number of seats or districts are accounted for in every election. As several others have suggested (Coppedge 1997; Lijphart 1994; and Taagepera and Shugart 1993) the number of parties will increase if the district magnitude increases. I also expect to find that district magnitude will have a positive significant relationship with the dependent variable. I believe this relationship will be consistent with earlier research, and the relationship will be positive because higher district magnitudes equal more opportunities for parties to enter the legislature.

Findings

I use ordinary least squares (OLS) regression for each of the last three elections for each of the states included in this study. The number of institutionalized parties in each election is compared to the five independent variables.
Party Institutionalization Between 1994-1996

Table 3.1: Institutionalized Parties and Electoral Systems between 1994-1996

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Magnitude</td>
<td>.180</td>
<td>1.152</td>
</tr>
<tr>
<td>Total Seats (Assembly Size)</td>
<td>.372</td>
<td>-.569</td>
</tr>
<tr>
<td>Legal Threshold</td>
<td>.370</td>
<td>-.635</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.703</td>
<td>--</td>
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<tr>
<td>n = 9</td>
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<td>--</td>
</tr>
</tbody>
</table>

District magnitude is the first variable included in table 3.1. Many scholars have found that this variable is a determining factor in party development. In this study, district magnitude was an average of districts. The standardized beta coefficient for district magnitude in this study was 1.152 which illustrates a positive relationship with party institutionalization. The value, however, represents a limited contribution to the model. If this beta value was statistically significant, the results would imply that the number of institutionalized parties increases as district magnitude increases.

Even though the final two variables are interrelated, each variable has been included to represent different aspects of electoral systems. The first variable, total seats (assembly size), has been included for one reason: More seats present more opportunities for parties to enter the legislature and more opportunities for parties to become established. The assembly size is based on the total number of seats in the first election, and in this study the variable had a beta score of -.569. Much like the legal threshold value, this value is negative but has a relatively high score. I am surprised that the
relationship here is negative primarily because more seats provide more opportunities for parties to become institutionalized.

Some scholars have argued that legal thresholds are a dominant factor in party development while others have found that this variable does not influence party development. In the first election to be studied, legal thresholds received a low, negative beta score of -.635. Thus, without statistical significance, the inclusion of this variable has little significance to the outcome of this regression. For the elections in this study legal thresholds have little impact on party institutionalization.

The adjusted $R^2$ of this model indicates the significance level between the dependent variable and the independent variables. In this case, the significance value was .703 which high despite the absence of significant variables. Since the adjusted $R^2$ for the model was so high it seems that multicollinearity may be present. Therefore, the combination of these variables has caused the adjusted $R^2$ to be very high even though the model contains no statistically significant variables.

Next, we will investigate whether or not these values were similar or if dramatic changes have occurred in the next election to alter the results of the overall significance. The results of this test may change in the next election for several reasons. The parties in power may increase the legal threshold or decrease the number of seats in parliament to limit the number of parties in parliament. Several parties may have gained representation, and wish to keep this representation and will therefore lower the threshold, increase the district magnitude, or increase the assembly size to provide additional opportunities for parties in the electorate.
For the second test, the variables will assess party development in the following election. This is an election did not occur in the same year for all states, but this time frame is approximately 1997-1999. Hopefully, the variables in this section will give us some insight as to the trends in party institutionalization. Have any electoral changes affected party institutionalization? Is it too early to tell of any significant changes? The changes in basic electoral structure—assembly size, legal thresholds, or district magnitude—have been modest.

Table 3.2: Institutionalized Parties and Electoral Systems between 1997-1999

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Magnitude</td>
<td>.419</td>
<td>-.416</td>
</tr>
<tr>
<td>Total Seats (Assembly Size)</td>
<td>.611</td>
<td>.327</td>
</tr>
<tr>
<td>Legal Threshold</td>
<td>.554</td>
<td>.408</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>-.305</td>
<td>--</td>
</tr>
<tr>
<td>n = 9</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

While the results of the first test fell short of this study’s hypotheses, the results of the second test are more promising. The same variables were used in both tests, but some variables had different values because of electoral changes or because of party institutionalization. The variables in this study were short of statistical significance. Overall, however, the values improved a great deal from the previous test.

The first variable, district magnitude, was not significant in either of the first tests. The standardized beta value for district magnitude was -.416 which shows a moderate contribution to the overall significance of the model’s significance. Further, this negative
coefficient indicates that the number of institutionalized parties increases when district magnitude is lower, and the number of institutionalized parties decreases when this variable is higher. Without statistical significance, however, my results are limited. Some countries actually increased the number of seats in the legislature since the first election in this study. Most surprising is the fact that the beta coefficient from the first test was positive and in this test it is negative. The effect of district magnitude may have changed in this test because of changes in the representation structure (i.e., an increase seats) but is difficult to tell from this study.

The assembly size was the second variable in this test. I expected this variable to have a positive impact on party institutionalization since more seats present more opportunities for parties to participate in the electoral system. The standardized beta coefficient for assembly size was .327 and this shows that this variable had a moderate contribution to the model’s significance. In this test the relationship between this variable and the number of institutionalized parties was positive. I am surprised that assembly size reports a negative beta value in the first test but not in the second. I believe that more seats present more opportunities for parties to gain representation, and this effect is present in this test. Without statistical significance, I am unable to draw any solid conclusions about this relationship.

Legal threshold is the final variable in this analysis. Many have argued that higher legal thresholds have a constricting effect on party institutionalization since the permissiveness of the electoral system is reduced. However, from these results it is apparent that the level of legal threshold has little bearing on party institutionalization in these cases. Legal threshold had a minimal contribution to the overall statistical
significance, with a beta score of .408. This score is again positive and this suggests that higher legal thresholds result in more institutionalized parties. Many authors have argued that lower legal thresholds increase the opportunities for parties to enter parliament, but my findings present the opposite view. From the findings here, I surmise that without statistical significance, the impact of legal thresholds on party institutionalization is limited.

Finally, the overall model $R^2$ increased substantially from the previous study’s significance level of .703. The adjusted $R^2$ for this study is -.305, which indicates a low level of significance. This model lacks any variables that are statistically significant and this explains the model’s $R^2$ value. I attribute the high model $R^2$ in the first test to multicollinearity among the independent variables, which would result in higher $R^2$ despite the lack of significant variables. I believe the low adjusted $R^2$ for the second test indicates that electoral systems play only a limited role in party institutionalization.

**Party Institutionalization Between 2000-2002**

In this final section, the variables will be examined once more but with data from the most current election. The time frame for this final test is between 2000 and 2002. Party institutionalization is not something that can be tested in a single election, and one way to improve this study is to add more cases (e.g. elections or countries). Regardless, for this study the levels of significance increased from the first to second tests, and have continued to increase in this test. To reduce the effects of multicollinearity I use stepwise regression in this final test.
<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Magnitude</td>
<td>.374</td>
<td>-.439</td>
</tr>
<tr>
<td>Total Seats (Assembly Size)</td>
<td>.552</td>
<td>-.378</td>
</tr>
<tr>
<td>Legal Threshold</td>
<td>.762</td>
<td>-.198</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>-.251</td>
<td>--</td>
</tr>
<tr>
<td>$n = 9$</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

District magnitude was again statistically insignificant in this test. The standardized beta coefficient for this variable was -.439 thereby illustrating a modest contribution to the overall significance. Further, the beta coefficient was negative in this study which suggests that as district magnitude increases the number of institutionalized parties decreases. As other authors have suggested, higher district magnitude leads to more parties. The findings here do not support this assertion. In future research, I would anticipate district magnitude to be a factor in the institutionalization of political parties in East Europe.

Assembly size is the second variable used in this test. As mentioned earlier, I expected larger assemblies to have a larger number of established parties. For this study, the standardized beta coefficient was -.378. This value suggests a moderate contribution to the significance of this test. This variable was insignificant in all three elections. The standardized beta coefficient is surprising. Political scientists have argued that more permissive electoral systems result in more political parties but this finding would suggest the opposite. The beta coefficient implies that larger assemblies lead to fewer institutionalized parties and vice-a-versa. While I cannot propose any accurate
explanations as to why this relationship is negative, I believe this would be an interesting topic for future research.

The final variable used in this test was legal threshold. This variable was also insignificant in all three elections. This variable had a negative beta value of $-0.198$. The results here support the findings of other scholars who have argued that permissive electoral systems lead to more political parties. Lower thresholds make it easier for parties to gain representation, thus the number of parties increase when the legal threshold decreases. The beta coefficient here suggests that the number of institutionalized parties increase as the legal threshold decreases. On the other hand, as the legal threshold increases then the number of developed parties decrease. However, without statistical significance my findings are limited.

Results in the third test prove an even stronger relationship than the previous test. The overall $R^2$ value for the final model was $-0.251$. This final test was void of any significant variables. The adjusted $R^2$ decreased slightly from the previous test, and in both of the final tests the model $R^2$ was negative. Thus, the overall findings of this chapter suggest that electoral systems have a minimal impact on party institutionalization. Therefore, this study supports the idea that the connection between electoral systems and the number of institutionalized parties is weak.

**Conclusion**

This chapter has attempted to add to the debate on electoral systems through a combination of major variables that have been used in past research. The results from the first test reject the notion that any of these variables influence party development. However, the second test has a high adjusted $R^2$, but no variables that reach levels of
significance. From the third test, it seems that the significance increased and this time a few variables were statistically significant.

This chapter has tested many ideas that researchers have used in previous research, but the study is different for a number of reasons. Most studies on political parties examine the number of parties and how independent variables cause either an increase (e.g., by lower legal thresholds or larger assembly sizes) or decrease (e.g., in the number of political parties. Other studies have focused on parties in an individual state (Agh 2000). There are fewer studies like this that examine the number of institutionalized parties in a system (Ordeshock and Shvetsova 1994 and Moser 1999).

Still, there are several ways to improve this research, and there are a number of ideas that future research should examine. The number of cases in this study could be increased to provide a larger sample. A larger sample could more accurately show the trends in party institutionalization. Additional research could also examine a party's vote shares in consecutive elections to assess the institutionalization of particular parties. More studies that examine the party institutionalization within a single state can add to the research in this chapter and the research that has been mentioned.

This research has tested a number of variables that relate to electoral systems. In general, district magnitude had little effect on party institutionalization. The final two tests did show an increase in significance, but in general this variable had a modest impact. In the final model, legal thresholds district magnitude and assembly size were significant. Thus, the results here support the findings of other political scientists who have argued that permissive electoral systems (i.e., systems with higher district magnitude, larger assemblies, and lower legal thresholds) lead to more parties (Taagepera
and Shugart 1989; Lijphart 1994; Coppedge 1997 and Cox 1997). My findings take this research a step further and argue that permissive systems lead to an increase in the number of institutionalized parties.
Chapter 4

Party Institutionalization and the Impact of Macroeconomic Variables

Introduction

The focus of this chapter is the impact of economic variables on party institutionalization in East Europe. There is a lively debate as to whether economics has an effect on party institutionalization. Some authors have claimed that economics plays a minimal role in voter choice (Harper 2000) while others have argued that economics is very influential (Pacek 1994). The central focus of this chapter is to examine the relationship between party institutionalization and macroeconomic variables in East Europe.

The first section of this chapter reviews some of the key issues relating to economic variables and party institutionalization. The second section discusses the methods used in the chapter. The dependent variable of party institutionalization is operationalized with each of the independent variables in this section. The final section summarizes the findings for each election year and compares these findings with previous research. Several authors argue that macroeconomic variables influence voter choice (Lewis-Beck 1986; Pacek 1994; Aguilar and Pacek 2000; Fidrmuc 2000 and Lewis-Beck and Paldam 2000). I hypothesize that as macroeconomic variables improve (e.g., unemployment rates decrease, gross domestic product (GDP) growth increases and gross national income (GNI) per capita increases, etc.) voters in East Europe will reward incumbents, and this will lead to an increase in the number of institutionalized parties. When macroeconomic variables suffer, I expect voters to punish incumbents and therefore the number of institutionalized parties should decrease.
Literature Review

The impact of macroeconomic variables on the number of parties has received long-standing scholarly attention, but the research has only recently focused on the number of institutionalized parties. Research in this area has largely examined macroeconomic variables (i.e., variables such as unemployment rates, inflation rates, and GDP). As a comparative study, this chapter looks at how party institutionalization is affected by macroeconomic variables.

Economic Development and Voter Turnout

A long-standing argument has been that economic development has a negative relationship with voter turnout (Aguilar and Pacek 2000; Millard 1992; Troxel 1993 and Pacek 1994). Aguilar and Pacek (2000) find that “voters in developing countries are sensitive to economic conditions” (1005). In their comparative study of Latin American countries they find that voter turnout increases as the economy falters, and subsequently, this increase in turnout typically results in penalty votes, or votes that punish the party or parties in power. Their study, while not explicitly focused on party institutionalization, does have implications for this chapter. When economic decline occurs and voter turnout increases, the anticipated result is incumbent defeat. During economic growth, on the other hand, voter turnout should remain at a constant level and incumbents should receive support from voters.

Following Aguilar and Pacek’s (2000) argument, if voters punish the incumbents responsible for economic decline, then it will be more difficult for parties to become institutionalized. During economic downturns, voter turnout often increases because voters grow frustrated with the current government’s economic policies. With this
increase in voter turnout, the number of votes an incumbent receives decreases. Furthermore, in times of prolonged economic stagnation or economic decline the careers of incumbents and most elected officials will be much shorter than during times of economic growth. When incumbents do not win re-election, the livelihood of their parties suffer. As the strength of a party is eroded by economic troubles, it becomes more difficult for parties to institutionalize. Therefore, as the economy declines, voter turnout and the number of votes penalizing incumbents will increase thereby complicating the institutionalization process and limiting the number of institutionalized parties.

In his study of Bulgaria, Czech Republic, Slovakia, and Poland, Pacek (1994) uses unemployment rates, real income levels, and inflation rates to examine economic strength. In later work, Aguilar and Pacek (2000) omit inflation rates because they can increase while other variables—unemployment rates and real income—in a country improve. Still, in this study the authors’ results indicate that as unemployment rates increase so does voter turnout (2000). Therefore, Aguilar and Pacek’s (2000) findings support the notion that voters in East European are concerned with macroeconomic variables, and if these variables take a turn for the worse so does the future of incumbents.

However, Hamann (2000), Harper (2000), and Roper (2003) suggest that economic variables do not have the degree of influence that other authors find (Pacek 1994; Aguilar and Pacek 2000; Lewis-Beck and Paldam 2000). For example, Hamann (2000) concludes from her study on the Spanish Socialist Party (SPOE) that Spanish voters are more concerned with their ideology than their economy. Despite high unemployment rates from the mid 1980s through the mid 1990s, the SPOE was able to
win re-election in three elections. Because of the fragility of competing parties, Hamann argues that the SPOE was able to retain control over the government because of its disproportionate power. Only after more than a decade did the SPOE lose their control over the government. Therefore, these results differ from the previous findings that suggested poor economic performance results in electoral defeat for incumbents.

If economic variables have had little effect on incumbent success in Spain, perhaps there is not such a strong relationship between economics and electoral victory. Or, however, perhaps the relationship between economics and electoral performance varies by country. Lewis-Beck (1988) finds that ideology and party identification are the most salient factors for voters in developed countries. Furthermore, developed states such as the United States and Great Britain typically have institutionalized political parties, and developing countries usually do not. Therefore, I argue that as a country becomes more developed economically the institutionalization of its political parties increases as well. Post-communist countries should experience volatility in the institutionalization of parties, especially with respect to economic development. On the other hand, established democracies should have a number of institutionalized parties that may gain (lose) representation depending on the success (failure) of the economy. The difference, however, is that when parties in post-communist countries lose representation there is a possibility that the party may eventually disappear. Meanwhile, established democracies may experience fluctuations in party representation, but the parties in these countries should continue to exist unlike parties in post-communist countries.
Retrospective and Prospective Voting

Using retrospective and prospective voting is a common method used by political scientists. Harper (2000) finds mixed results for the relationship between economic performance and electoral success. He examines how voters reward or punish incumbents with respect to economic variables. Retrospective voting occurs when a voter uses the past few years as the determining factor in deciding who to vote for. Harper argues that voters use retrospective pocketbook voting which is when voters reward incumbents if an individual’s pocketbook is sufficient, or punish incumbents if an individual’s pocketbook is lower than they believe it should be. The final strategy is sociotropic voting. Sociotropic voting occurs when voters are more concerned with national issues more than individual egocentric issues (Mughan and Lacy 2002).

One approach voters use is prospective voting and this approach focuses on the policies of a party. If a voter agrees with a candidate’s policies then they will vote for that candidate. Prospective voting occurs when a voter supports a candidate for his/her policies. If a voter disagrees with the policies, then he/she will not vote for the candidate. Under prospective voting the voters care more about the policies of a candidate while retrospective voters focus on the results from an incumbent’s performance (Roper 2003). Harper (2000) and Roper (2003) find that economics plays only a limited role in voting behavior. Thus, the mixed statistical results suggest that maybe other factors, besides economics, are at work. Some scholars refute the claim that economics plays a role in voter attitudes, and it follows that if voters do not rely on economics to influence their vote, then maybe parties experience some degree of political insulation from economic
woes. It is very possible that other factors such as ethnicity and historical legacies may continue to influence voters irrespective of economic conditions.

Lewis-Beck and Paldam (2000) provide an overview of contemporary research on economic influence on politics. The authors argue that economics does matter, and voters reward incumbents when the economy is strong and punish them when the economy weakens. They make an interesting modification to their findings. Lewis-Beck and Paldam suggest that economics is a determining factor for voters, but the salience of economics is not static; rather, the importance of economics changes from election to election. In some elections, economics could be a primary factor in voter selection whereas in other elections economics may play more of a secondary role. These findings would help explain the success the SPOE in Hamann’s work. Still, Lewis-Beck and Paldam argue that if an economy struggles long enough voters will punish incumbents. This punishment will retard the development of established parties.

Parties and Economic Policies

Fidrmuc’s (2000) work also deals with retrospective voting and its presence in East Europe. He argues that voters will respond positively when they have been the beneficiary of economic reform and negatively when they have suffered from economic reform. Fidrmuc states that white collar workers and economic elites typify the voters who benefit most from economic reform while blue-collar workers do not enjoy the same benefits from economic reform. Thus, different voters are concerned with different issues. Aguilar and Pacek (2000) similarly argue that blue-collar middle-income citizens are usually adversely affected by economic reform, and these individuals tend to punish incumbents. Therefore, Fidrmuc’s (2000) and Aguilar and Pacek’s (2000) findings
suggest that parties that can attract middle class citizens should be the most electorally successful parties in times of economic distress. In other words, when the economy is bad, the parties that can gather the most support from blue-collar workers and middle-income citizens should gain the most representation. It follows then, that economic distress should help certain parties (i.e., parties associated with blue-collar workers and/or middle-income citizens) become institutionalized.

Methodology

As discussed in earlier chapters, the dependent variable in this study is the number of institutionalized parties in East European countries. I look at this variable in elections during three different time periods. The first test uses data from elections between 1994 and 1996, the second test examines elections between 1997 and 1999, and the final test is based on elections between 2000 and 2002.

Many scholars have investigated the constraining effects of economics on the number of parties—especially incumbent parties (Hamann 2000; Harper 2000 and Pacek 1994). Gross national income (GNI) is one of the independent variables used in this research. If a state experiences economic difficulties and has a lower GNI, then I expect the number of institutionalized parties to be reduced. When GNI declines people are ready to punish incumbents which in turn slows party institutionalization. If a country has steady increases in GNI, then party institutionalization should increase.

Another variable in this model is central government debt. My contention is that as a state’s economy suffers, political leaders will seek external funding to minimize economic problems. In several cases, as the economy declines voters punish incumbents (Aguilar and Pacek 2000). Thus to avoid electoral defeat, officeholders will use a variety
of ways, including external debt, to improve their economy. I expect to find more institutionalized parties in cases with higher central government debt. When central government debt is low, I expect the number of developed parties to also be lower. To improve economic performance during periods of stagnation or recession, government often adopt a more active approach in developing monetary and fiscal policies.

Governments may try and increase spending to improve economic conditions, and this can be very beneficial to an economy. More central government debt should translate into more economic aid, and should lead to improved economic conditions. However, one side effect of government spending during economic struggles is an increase of central government debt. As an economy struggles and central government debt is low, I expect incumbents to be voted out of office. If central government debt is higher during economic difficulties (such as high unemployment rates, low gross domestic product (GDP) growth and low levels of GNI per capita), then I anticipate the number of institutionalized parties to increase. Most of the countries in this study have not enjoyed considerable economic growth, and therefore I hypothesize that as the central government debt increases the number of institutionalized parties should increase.

Gross domestic product growth is a common indicator for economic strength and is used in this study. As countries and economies develop, GDP growth should increase. Under sociotropic voting citizens of a country may be more concerned with variables like GDP growth and GNI per capita. Even though this variable may not be as influential to voters as variables like unemployment rates, GDP growth does broadly measure a country’s economic growth. I could use GDP rates to test this variable’s significance but some countries have larger economies like Poland, while other countries have much
smaller GDP levels like Estonia. In this chapter, I use GDP growth which calculates the rate of growth in GDP from year to year. Sustained increases in GDP growth indicate economic progress and I anticipate consistent growth to lead to incumbent support. Therefore when GDP growth is sustained, I anticipate an increase in the number of institutionalized parties because voters will reward incumbents for economic progress. During negative GDP growth, I expect the number of developed parties to decrease because voters will punish the parties in power.

One of the most used variables in research such as this is the unemployment rate. This variable is commonly used because it is typically readily available and easy to use and interpret. Several scholars use unemployment rates as one way to study economic variables (Pacek 1994; Harper 2000; Hamann 2000; Fidrmuc 2000 and Roper 2003). While there can be regional variations, I believe that unemployment rates are a concern to the majority of the population, and thus this variable should be influential in the electoral success of political parties. If unemployment rates increase, then I expect voter turnout to increase. Further, when unemployment rates increase, I argue that those who vote will punish incumbents for the high unemployment rates. On the other hand, I expect low unemployment rates to translate into re-election victories for incumbents. In sum, as unemployment rates increase the institutionalization of political parties should decrease and when unemployment rates decline I expect the number of institutionalized parties to increase.

Findings and Discussion

In this chapter, I use stepwise ordinary least squares (OLS) regression to test for significance between economic variables and party institutionalization. With this test, I
examine which variables are significant and offer explanations as to why certain variables are significant. The first test examines economic variables and the parliamentary elections between 1994 and 1996. In most of the countries, this election is either the second or third democratic election to be held. Early stages in the democratization process are marked by parties that are still attempting to find the most effective electoral strategies. In the second election, between 1997 and 1999, the number of institutionalized parties decreased. For this final test, the number of institutionalized parties remained constant from the previous election. In Latvia, Lithuania, Romania, and the Czech Republic, the number of parties was the same as the previous election. The individual results of each test are included in the rest of this section.

**Institutionalized Parties Between 1994 and 1996**

In this first test, I use OLS regression to test the significance between the number of institutionalized parties and the independent variables for the time period of 1994-1996. Because this time period represents an early stage in the democratization process, I am not too surprised that none of the variables were significant. The following table reports the results from this first test.
Table 4.1: Institutionalized Parties and Economics between 1994-1996

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNI Per Capita</td>
<td>.349</td>
<td>.741</td>
</tr>
<tr>
<td>Central Government Debt</td>
<td>.437</td>
<td>.536</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>.709</td>
<td>-.208</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>.744</td>
<td>-.199</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.317</td>
<td>--</td>
</tr>
<tr>
<td>n = 9</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

The results from the first test reveal no significant relationships. The GNI per capita is insignificant in this study. The standardized beta coefficient for this test was .741 and this reveals a positive relationship. Because of the early stage of the democratization process, the economic situation can complicate an incumbent’s re-election hopes. For countries in East Europe, the post-communist period has witnessed considerable economic difficulties, especially early in this process. However, with no statistical significance, I am only able to speculate on why no relationship exists in this test.

Central government debt was also insignificant in this test. The standardized beta coefficient for this variable was .536. This coefficient illustrates a positive, moderate contribution to the overall adjusted $R^2$. If significant, this variable would suggest that as central government debt increases so do the number of developed parties. I believe the central government debt may be more of a factor in later elections rather than this first election. After political leaders in these countries have witnessed the short-lived tenure of their predecessors, I believe that the new leaders and new parties are searching for
ways to improve economic conditions. One way to improve economic conditions is to borrow money from an international organization, such as the International Monetary Fund (IMF) or the World Bank (WB).

GDP growth is the next variable in the study. This variable is an important indicator of economic expansion or contraction. For this variable, in this test the standardized beta coefficient was -.208. This value represents a limited, negative contribution to the relationship with institutionalized parties. The results here imply that as GDP growth increases the number of developed parties decreases. While this variable is a commonly used indicator of economic development, I do not expect average citizens to use this variable as a determining factor in how they vote. This variable is not used as much as other macroeconomic variables such as unemployment rates and real income. I believe people can be more affected by unemployment rates and real income levels than GDP growth. Therefore, I am not surprised that this variable was insignificant in this study.

As stated before, unemployment rates are commonly used in political science research. Many scholars believe that voters in East Europe consider unemployment rates when they vote. In this first test, the standardized beta coefficient was -.199 which indicates a negative, weak relationship. Since this election occurred early in the democratization, I believe that unemployment rates were insignificant because citizens were not experiencing similar unemployment rates in every country. For example, Poland, Slovakia, and Bulgaria all had unemployment rates over 15% while the Czech Republic, Hungary, and Latvia all had rates approximately half of that of the former countries. Thus, the countries in this study have had different levels of unemployment.
The adjusted $R^2$ for this test was .317. This model indicates a weak relationship between the institutionalized parties and the independent variables. Therefore, these results imply that economic variables have a limited impact on party institutionalization between 1994-1996. With these results, I am unable to come to any definite conclusions about the variables in this chapter. Since the elections in this study occurred early in the democratization process, I believe voters are not sufficiently frustrated with the economic conditions in East Europe. As such I hypothesize that as political learning increases, the influence of economic variables on party development will increase.

*Party Institutionalization Between 1997 and 1999*

In this second test, I expect economic conditions to have a greater impact on party institutionalization. As political learning increases, voters develop strategies and adapt to the political system. Voters will be more likely to punish incumbents who are viewed to be responsible for economic troubles. Furthermore, I expect economic variables to become more important to voters as the democratization process continues. Additionally, voters will be more anxious to see improvements in macroeconomic conditions like unemployment rates. The following tests party development between 1997 and 1999 with the same macroeconomic variables used in the previous test.
Table 4.2: Institutionalized Parties and Economics between 1997-1999

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significance</th>
<th>Standardized Beta Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNI Per Capita</td>
<td>.038*</td>
<td>.695*</td>
</tr>
<tr>
<td>Central Government Debt</td>
<td>.502</td>
<td>-.204</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>.061</td>
<td>-.494</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>.508</td>
<td>-.204</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.408</td>
<td>--</td>
</tr>
<tr>
<td>n = 9</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

*p<.05

GNI per capita was insignificant in the previous election; however, the results in the second test were different. In the second election, GNI per capita was statistically significant. The standardized beta coefficient for the variable was .695 which reveals a strong, positive relationship. In other words, as the GNI per capita increases so does the number of institutionalized parties. On the other hand, a decrease in GNI per capita would likely lead to a decrease in the number of institutionalized parties. The relationship here reveals that as GNI per capita increases so do the number of institutionalized parties. This finding suggests that sociotropic or macroeconomic variables may be salient to voters.

Central government debt was again insignificant in the second test. This variable had a standardized beta coefficient of -.204, which shows a weak, negative relationship. While this variable was insignificant in two consecutive elections, I find this result surprising since the economies in the region have not made substantial economic gains. If central government debt is relatively low and the economies for these countries are still
experiencing modest economic growth, then it is unlikely that this variable has much of an effect on the dependent variable.

The next variable, GDP growth fell just short of statistical significance in the second test. The standardized beta coefficient for GDP growth in the second test was -.494. This value is moderately strong and negative. Therefore, as the GDP growth increases the number of developed parties decreases. The explanation for this relationship is unclear, but without statistical significance the relationship between this variable and dependent variable lacks salience in this test.

Unemployment rates are the next variable reported in this test. This variable lacked significance in both tests. A significant relationship between the dependent variable and unemployment was not present, and the standardized beta coefficient was only -.204. The absence of statistical significance is surprising since many authors have found this variable to be significant in earlier studies. It is possible that citizens in the sample countries have not punished incumbents for unemployment rates because the rates are not high enough to cause voter frustration. If unemployment rates continue to increase and hurt enough voters, then I expect this variable to have more of an impact on party development. Another plausible explanation is that unemployment rates are over-reported and are misleading. If a smaller percentage of citizens are affected by unemployment rates, then maybe this group is not large enough to punish incumbents. Therefore, those who are in office retain their positions because unemployment rates are at an acceptable level for the populace.

The adjusted $R^2$ in the first test was relatively low with a value of .317. For the second test, the adjusted $R^2$ increased to .408. With this increase, the model can explain
party institutionalization by almost 10% more than the previous test. Most of this increase can be attributed to the increase of significance in the GNI per capita and GDP growth. While the latter variable is still just short of significance, its increase must have some effect on the overall significance. Again, the significance of GNI per capita clearly has an impact on the increase in the adjusted $R^2$. The variables used in this test revealed a moderately strong relationship, and this trend continues in the final test.

**Party Institutionalization Between 2000 and 2002**

For the final years between 2000 and 2002, I test the variables once more. In this test, I use data from the most current elections. Results from the first test revealed no significant variables, and in the second test only GNI per capita was significant. In this final test, GNI per capita, GDP growth, and central government debt continue to increase in significance, and a third variable also emerges as statistically significant.

<table>
<thead>
<tr>
<th>Table 4.3: Institutionalized Parties and Economics between 2000-2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent Variables</strong></td>
</tr>
<tr>
<td>GNI Per Capita</td>
</tr>
<tr>
<td>Central Government Debt</td>
</tr>
<tr>
<td>GDP Growth</td>
</tr>
<tr>
<td>Unemployment Rate</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
</tr>
<tr>
<td>n = 9</td>
</tr>
</tbody>
</table>

*p<.05, **p<.01, ***p<.001

In the previous test, GNI per capita was the only significant value. Once again, GNI per capita was significant but this time at the 99% level. This is the second consecutive test in which this variable has reached significance. The standardized beta
coefficient for GNI per capita was .618 and this value represents a strong, positive contribution to the adjusted \( R^2 \). The beta value for this variable decreased but only slightly. GNI per capita continues to have a strong, positive relationship on the dependent variable. Results from this test suggest that as the GNI per capita increases so do the number of developed parties. With statistical significance in two consecutive elections, the results here indicate that this variable could play an influential role in party development. I believe increases in GNI per capita satisfy the needs of voters and therefore voters reward incumbents through re-election victories. GNI per capita measures a country's wealth per capita, and if wealth among the populace increases then the livelihood of a country should be better and voters should be content with those in the legislature. By rewarding incumbents, it is more likely for parties to remain in power rather than being voted out of office if the GNI per capita decreased.

Central government debt is the next variable used in this study. Much like unemployment rates, this variable has been insignificant in the previous tests. In this final test, however, this variable reached significance with a value of .001. The standardized beta coefficient for central government debt was -.754. The beta coefficient in this test reveals a negative relationship between central government debt and party development. Therefore, as central government debt increases the number of institutionalized parties decreases. Because this variable was significant in only the final test, it is difficult to determine why this variable is significant. One explanation could be that as the amount borrowed by the government increases, the more the economy improves. If the economy improves then voters are less likely to remove incumbents
from office. Subsequently, parties retain seats and are able to develop into institutionalized parties.

For the final test, GDP growth was significant at the .05 level. GDP growth had a standardized beta coefficient of -.341, which shows a moderately strong, negative relationship with the dependent variable. These results suggest that when the GDP growth decreases the number of institutionalized parties increase. I expected the number of parties to increase when GDP growth increases because if economic conditions are improving, voters will reward incumbents. It is also likely that as GDP continues to grow, parties in power will gain power and more representation. When the parties in power enjoy favorable economic conditions, the size of the party in parliament should increase as voters reward incumbents for the strength of the economy.

Unemployment rates in the previous tests were insignificant and were in the final test also. Despite a number of scholars (Pacek 1994; Harper 2000; Hamann 2000 and Fidrmuc 2000) attesting to the statistical importance of this variable, my results differ from previous research. Unemployment rates were again insignificant in this final test, and the standardized beta coefficient was -.106. This beta coefficient indicates a weak, negative relationship. I am surprised to find that unemployment rates were insignificant in all of the tests that I ran in this chapter. To borrow from earlier explanations, I believe that this variable may be insignificant because unemployment rates are not high enough to hurt people in other elite social classes. Fidrmuc (2000) states that individuals will respond differently to economic conditions. For example, unemployment rates are more of a concern to blue collar workers than white-collar workers. Furthermore, white collar workers tend to have higher voter turn-out than blue collar workers, so unemployment
rate increases may not influence party institutionalization because of the lower voter
turnout among blue collar workers. The few affected by unemployment may not be
enough to punish incumbents. When enough people have jobs, then incumbents, when
all other variables are not declining, should enjoy re-election. However, from these
results I am unable to make any definite statements from this final test.

The adjusted $R^2$ for the second test had increased from the first test, and this trend
continued in the final test. In the final test the adjusted $R^2$ was .907. This model’s
explanatory ability represents a strong, positive relationship between the number of
institutionalized parties and the independent variables. These results suggest that the
macroeconomic variables used in this chapter influence party development in East
European countries. The results show that a relationship does exist between the number
of institutionalized parties and the independent variables used in this study. By using
these variables, I am able to explain most of the institutionalized parties in the final test
of this study.

Conclusion

The influence of economic variables on party institutionalization is mixed. Some
authors have found a significant relationship between economics and party
institutionalization and others have found mixed results. Only one variable was
significant in two tests and that variable was GNI per capita. GDP growth was almost
significant in the second test and emerged significant in the final test. Central
government debt was also significant in the final test. For the final test, my results
illustrate a strong relationship between the number of institutionalized parties and the
independent variables used in the final chapter.
Future research on party development should focus on variables similar to this. At this point in time, the number of elections that have taken place in each country limit my findings. Parties are still developing in these countries. Institutionalized parties are present in more recent elections rather than early elections. Research on party institutionalization is very important to political research and especially to politicians in these countries. If politicians find that certain economic variables are more important than others, incumbents may try and improve certain economic conditions, such as GNI per capita, to gain re-election.
Chapter 5

Conclusions and Future Research on Party Institutionalization

Introduction

The previous chapters have covered a number of different variables. Each individual chapter has examined a broad theme (whether it was ethnicity, electoral systems, or economics) and studied the impact these factors have on party institutionalization. My central focus has been to examine which factors have a greater impact on party institutionalization. This chapter summarizes the general findings from earlier chapters and provides some final thoughts on party institutionalization in East Europe.

East Europe has been the subject of many studies for political scientists. The democratization process, especially, has received considerable attention from scholars. A number of scholars have studied the impact of certain variables on parties in post-communist countries. Ethnicity, electoral systems, and economic strength have all been included in studies on political parties. The goal of this thesis is to examine the impact of different variables on party institutionalization. In chapter two, I assess the relationship between ethnicity and party institutionalization. Chapter three evaluates the impact of electoral systems on the number of institutionalized parties. Chapter four examines the influence economic variables have on the number of institutionalized parties in East Europe.

Chapter two tested variables related to ethnicity to assess the relationship between ethnicity and party institutionalization. Results from chapter two indicate no significant relationship between ethnicity and the number of institutionalized parties. The next
chapter focused on the impact of electoral laws on party development. The findings in this chapter illustrate no statistical significance between electoral systems and the number of institutionalized parties. In the final chapter, I examine the relationship between economic variables and party institutionalization. The overall findings of this thesis present a basic conclusion concerning parties in East Europe. Economic strength often leads to success for parties while economic decline often limits party institutionalization.

The goal of this chapter is to summarize and explain the main findings in the previous chapters. Results from this chapter are intriguing, but future research should continue to examine the role economics plays in the institutionalization of political parties.

Results of First Election (1994-1996)

The first election of this study was the second democratic election in most of the countries. This election represents an early stage in the democratization process for these countries. While the results of this thesis are limited because of the short time span, I believe that this research can be very useful in examining early trends and providing a baseline in the transition to democracy. In this first election, the results in all three chapters suggest little statistical significance among the independent variables.

There are several ways to operationalize the dependent variable of institutionalized parties. The results of studies like this can be greatly affected by the method used to operationalize the dependent variable. I use the method employed by Ordeshook and Shvetsova (1994) which considers institutionalized parties to be represented in consecutive elections. As previously discussed, I employ this method because it effectively determines the number of institutionalized parties.
For the second chapter, I tested the relationship between institutionalized parties and variables associated with ethnicity. My findings indicate that the number of ethnic groups plays a limited role in party development. However, the presence of an official state language was statistically significant. My findings suggest that states with an official language experience fewer institutionalized parties while states with no official language usually have more institutionalized parties in this time period. As Kitschelt (1992) argues once democracy has been implemented in a country, ethnic cleavages can be very influential for voters in early elections. In many of these countries, the elections studied in this time period represent either the first or the second democratic election. Further, variables associated with ethnicity such as language played a role in the development of parties in these countries. While I do not believe that an official state language is one of the most important overall variables in party development between 1994 and 1996, I do think these findings highlight an important discovery. The results of chapter two suggest that ethnicity has a minimal impact on the institutionalization of parties in East Europe.

In chapters three and four, electoral laws and economic variables were studied respectively. None of the independent variables in chapters three or four were statistically significant in the first election. I believe that electoral laws were insignificant in elections between 1994 and 1996 because the impact of electoral laws is not immediate and the effects associated with electoral systems will occur in subsequent elections. Much of the literature on electoral laws argues that decreases in district magnitude, assembly size, and increased legal thresholds restrict the number of parties in an election. While at first glance this seems to be the case, a closer look reveals that only two or three
parties have participated in all three of the elections used in this study. Therefore, some other factors must be at work to limit the number of institutionalized parties because electoral laws have played a very small role in the early development of parties in East Europe.

The focus of chapter four is to examine the impact of economic variables on party development. The results from the regression analysis reveal that none of the independent variables have a statistically significant relationship with the dependent variable. Because this election took place early in the democratization process, and since none of the countries had experienced substantial economic growth, voters in East European countries were still developing voting preferences. Thus, the impact of the economy on party institutionalization is limited in this first election, but is statistically significant in later studies.

Results of the Second Election (1997-1999)

In the second set of elections, the results were much different. For chapter two, neither of the two variables were significant (So while an official state language led to fewer institutionalized parties in the first election). This variable had little to no effect in the second round of elections. The number of ethnic groups in these countries was again statistically insignificant. From these results, I deduce that ethnicity plays a minor role in early elections, but in later elections becomes even less significant. This finding accords well with Kitschelt’s (1992) contention that as a country becomes more democratic, voters look outside of their ethnicity to guide their ballot selection. Therefore, other variables should become more significant while ethnic variables lose their salience.
In the previous elections, electoral laws played no role in the development of parties. For this second test, the results indicate that electoral laws again do not play a significant role in party formation. As previously stated, electoral laws will have a greater effect for democracies with established parties because the developed parties will attempt to manipulate the electoral system in their favor. Because the countries in this study are still relatively new democracies, only a few institutionalized parties exist in East Europe.

For chapter four in the first test, none of the economic independent variables were statistically significant. The results in the second test illustrate that GNI per capita was statistically significant. Even though other economic variables were insignificant, the impact of this economic variable shows a positive relationship between GNI per capita and the number of institutionalized parties. These results suggest that an increase in GNI per capita results in an increase in the number of institutionalized parties. I believe that voters in these countries develop tendencies and expectations of their elected officials. As an economy grows, the likelihood of an incumbent winning re-election improves. When incumbents win re-election parties become institutionalized. Therefore, my findings here suggest that GNI per capita increases lead to an increase in the number of institutionalized parties.

Results of Final Election (2000-2002)

Data in this last series of tests represent the most current elections. For most of the countries in this study, this is the third or fourth democratic election. The results of this test provide one clear trend: Macroeconomic variables do influence voters in later
elections in East Europe. In the rest of this section, I elaborate the explanations for this
trend, and offer some predictions for the future of institutionalized parties in East Europe.

For chapter two, the results of the final ethnicity test again shows no statistical
significance for official state languages and number of ethnic groups. The number of
ethnic groups was insignificant in both cases, and it was insignificant in the final test
also. Therefore, this variable plays little to no role in current party development in these
countries. The relationship between official state language and the number of
institutionalized parties was significant in the first election, but not in later elections. I
believe this indicates that in early elections, voters look to basic values to influence their
votes (e.g., ethnic and social cleavages and anti-communist sentiment). However as
democracies progress, voters develop preferences on various social issues and the
previous voting preferences (ethnic cleavages) are replaced. Thus, I am not very
surprised that this trend emerged from my tests.

Electoral laws have received considerable research from political scientists
(Duverger 1954; Lijphart 1994; Ordeshook and Shvetsova 1994; Cox 1997; Moser 1999
and McFaul 2001). Many scholars have affirmed the significance of these variables in
studies on parties. From my results, I have found no evidence to either reject or support
the conclusions drawn from the previous research. In the final test, none of the
independent variables in chapter three were statistically significant. As mentioned
earlier, I attribute the absence of statistical significance to the inexperience of parties,
politicians and voters in these countries. For experienced democracies, I would expect
that parties in power would modify electoral laws to their advantage and that these parties
would manipulate the system to their advantage. In the case of post-communist East
European countries, however, the reasons incumbents have not been able to change the electoral laws for their advantage is possibly because only a limited number of parties have been institutionalized. Additionally, without incumbents winning re-election, it is very difficult for these parties to change electoral laws for their benefit. Furthermore, the nature of coalition formation in these countries might also restrict the abilities of political parties to change electoral procedures. This position is beyond the scope of this research but is an interesting question to explore in future research.

The final substantive chapter examines the influence of macroeconomic variables on party development. In the first test (1994-1996), none of the economic variables were statistically significant. The results from elections between 1997-1999 suggest that GNI per capita has an impact on the number of institutionalized parties, and GDP growth was just short of statistical significance. In the final test, the impact of economic variables was much stronger than it was in previous tests. For example, GNI per capita in the final test was significant at the 99% level.

Results from the second test indicate that GDP growth was almost statistically significant, and in the final test the variable was significant. However, the standardized beta coefficient was negative which indicates that GDP growth increases should lead to decreases in the number of institutionalized parties. Upon sustained economic growth, the party or parties in power will continue to gain membership until the economy falters. I expected the number of institutionalized parties to increase when GDP growth increases because if economic conditions are improving, voters will reward incumbents. It is also likely that as GDP continues to grow, parties in power will gain power and more
representation. When the parties in power enjoy favorable economic conditions, the size of the party should increase as voters reward incumbents for the strength of the economy.

One surprising finding was the impact of central government debt on party development. This variable was insignificant in previous studies, but was significant in this final test. I argue that central government debt is a tool used by incumbents to stimulate an economy. If parties increase the central government’s debt, however, then the economy must be either stagnant or declining. The results from this study report a negative standardized beta coefficient; therefore, an increase in central government debt translates into fewer institutionalized parties. I believe this negative relationship exists because government debt normally increases as economic troubles occur. In addition, if central government debt increases as a result of economic decline then I expect the number of institutionalized parties to decrease. To reiterate, government debt usually increases when the economy is struggling. Thus when the economy declines, I expect incumbents and parties to experience considerable difficulty maintaining legislative control. Furthermore, if incumbents and parties do not win re-election in consecutive elections it is impossible for parties to develop.

The final variable tested in chapter four was unemployment rates. This variable was statistically insignificant in every test run in this chapter. In a number of other countries, especially in the United States, unemployment rates are very important to voters. However, my results suggest that no relationship exists between unemployment rates and institutionalized parties in East Europe. While this variable may become more important to voters in future elections, the findings here show that unemployment rates do not influence the number of institutionalized parties for the countries in this study.
My results support the findings of other political scientists (Hamann 2000 and Roper 2003). For example, in her study of the Spanish electorate, Hamann finds that increasing unemployment rates did not translate into electoral defeat for the Spanish Socialist Party (SPOE). I suspect that eventually unemployment rate increases will cause voters to punish incumbents, which should retard the development of institutionalized parties in East Europe.

Final Thoughts

Party institutionalization has received considerably less attention from political scientists than other areas of research. In studies on the number of parties, they neglect the importance of institutionalized parties in stable democracies. This study has tested a number of different variables to evaluate which factors most influence party development in East Europe. The results from this thesis come to one conclusion: economic variables have a significant impact in the number of institutionalized parties in East Europe. Even though results from the first election were insignificant, findings from later elections demonstrate the importance of the economy. This result should not be surprising. Lewis-Beck and Paldam (2000) argue that voters are very concerned with their “pocketbooks” and use economic strength to either punish or reward incumbents. In times of economic strength, incumbents are rewarded while they are punished during economic downturns. I believe this study has bridged a gap between studies on the number of parties in post-communist countries and research on the role of institutionalized parties.

Future studies would add to the validity of this study by using more elections. Over the course of three elections, it is hard to infer much from the data available. With only three elections, I am able to provide more of a snap-shot rather than the complete
Since only three or four democratic elections have taken place in post-communist East Europe, the long-term effects of electoral and other economic variables may be different in future elections. In addition, the number of institutionalized parties may increase (decrease) as economic development continues (regresses). Regardless, party institutionalization warrants additional attention from political scientists. As long as there are developing democracies there will be a need for research on party development and institutionalization.
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