Do majoritarian electoral rules favour large industries?

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Introduction

Together with district magnitude, provision for supplementary seat, electoral thresholds and ballot structures, **electoral rules** are a defining dimension of electoral systems [1]. They translate votes into seats on different basis, shaping policy outcomes. Therefore, economic performance is expected to vary across rules. Political economy literature has long been focused on the consequences of the choice of electoral systems, namely majoritarian rule (MR), proportional representation (PR) and mixed systems (MS), and has documented a trade-off between accountability and representation. However, extant scholarship on this field remain inconclusive and provide competing results on how electoral rules affect economic growth.

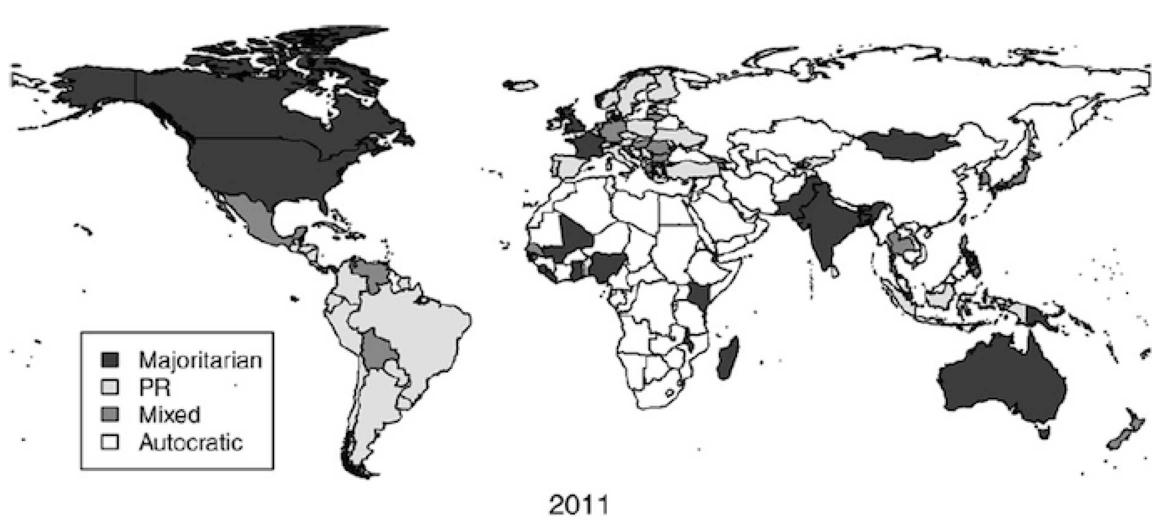

Figure 1: Electoral Systems around the World (Bormann & Golder, 2013)

Contribution

This paper aims to further understanding of the effects that electoral rules have on economic performance. Our contribution is threefold:

- We focus on **disaggregated economic performance** of industries which allows us to uncover patterns that would remain hidden at the aggregate level.
- We look directly at the ultimate impact of electoral rules: **industry output growth rates**.
- We provide evidence on that **industry size** plays a crucial role in the effect that electoral rules have on the economic performance of industries.

Conjecture

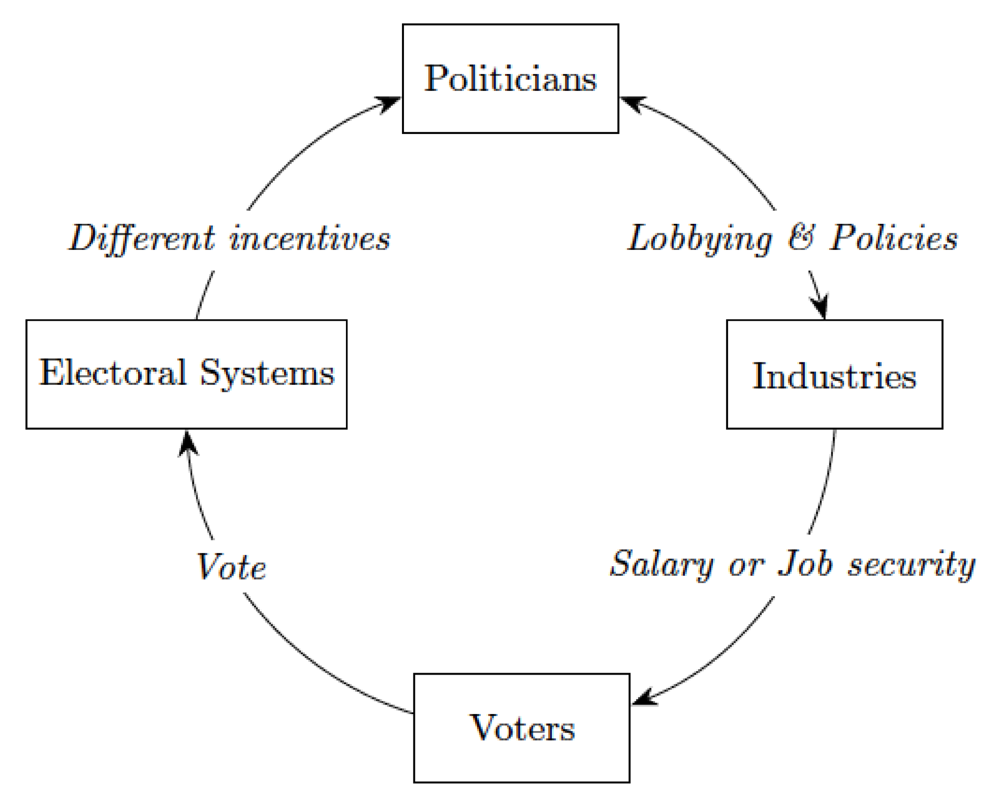

Figure 2: A Multilateral Political Linkage

Explanation

We conjecture a multilateral relationship among office-oriented politicians, industries and voters that might work differently under alternative electoral systems. Politicians pander to industries interests in detriment of more general public policies in return for money contributions, and for votes from the swayed industry workers. Therefore, industries employing a relative higher number of workers[a] -holding lobbying efforts constant- benefit from this linkage. Drawing on previous evidence suggesting that MR politicians are more prone to cater to narrow interests [[2]; [3]], we expect this political linkage to be more pronounced under MR.

[a]sample average 0.12%

Main findings

Industry size -the ratio of industry workers to total population- is associated with a growth-diminishing effect on the economic performance of industries. However, industries under **majoritarian electoral rules** grow less slowly relative to proportional representation or mixed systems.

Econometrics

Using data of 61 manufacturing industries from 58 democracies over 1990-2010, we estimate the effect of the interaction between majoritarian rules (MR_{ct}) and industry size ($IndSize_{ict}$) on the annual growth rate of industry output.

$$\begin{aligned} Growth_{ict} = \beta_0 + \beta_1 MR_{ct} + \beta_2 IndSize_{ict} \\ + \beta_3 MR_{ct} * IndSize_{ict} + X_{ict}\gamma \\ + \alpha_i + \nu_c + \mu_t + \epsilon_{ict} \end{aligned}$$

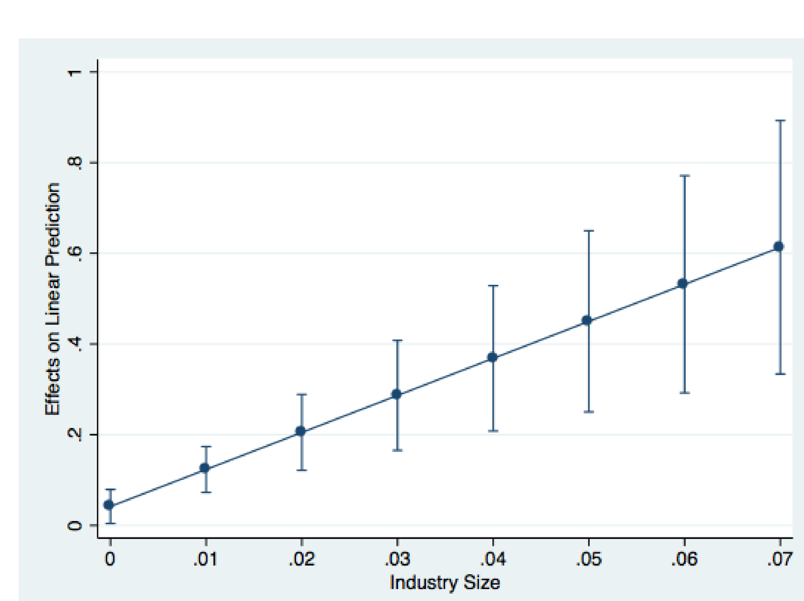

Figure 3: Marginal effect of MR on industry growth

Results

Random and fixed-effects estimations bring out robust evidence on a growth-diminishing effect of **industry size** on industries that **reduces** in MR countries. Along with year and industry fixed-effects, socio-economic, institutional and demographic factors are controlled for. This pattern is more evident in countries showing higher levels of corruption.

	(1) RE	(2) FE
MR	0.042**	0.023
	(0.019)	(0.019)
Industry Size	-13.750***	-30.583***
	(1.621)	(4.351)
Interaction	8.168***	17.525***
	(2.061)	(5.441)
Controls & yr dummies	Yes	Yes
N of Obs.	22,811	22,811
N of Groups	2,562	2,562
Within R-squared	0.300	0.330

Clustered standard errors in parentheses

* $p < .1$, ** $p < .05$, *** $p < .01$

Conclusion

We empirically study the economic aftermath of electoral rules from an industry-level standpoint. Applying an extensive panel dataset, we find that industry size is negatively associated with industry economic performance, althought this growth-diminishing effect reduces under MR. Since large industries generally represent a small fraction of the total population of a country, they could be deemed as narrow-interest groups. Electoral rules provide dissimilar incentives to politicians to response to different groups and shape policy outcomes. Consistently with [4], our findings may support the view that MR politicians are more likely to strategically target voters than under PR or MS, and thus to cater to narrow-interests at the expense of the general electorate.

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