
It's a matter of confidence. Institutions, government stability and economic outcomes.

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Abstract

The effect of constitutional structures (such as the effect of a presidential vs. a parliamentary system) over policy outcomes has been widely studied in the economic literature. In this paper, we account for the heterogeneity in parliamentary systems by investigating whether stable and unstable parliamentary systems behave differently in terms of the policy outcomes they implement. We show that this distinction of constitutional systems generates results that are more robust compared to the previous literature. More precisely, we find that parliamentary and presidential systems do not systematically differ but it depends on the incentives created by the features of parliamentary systems. Moreover, we show that this result is robust to changes in the set of countries and in the definition of stability. Finally, we discuss how these results are consistent with the presence of a selection effect in parliamentary systems.

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