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Explaining Emerging Patterns of Economic Performance in the New EU-Member States: Institutional Settings, Left/Right Ideology and Globalization

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Abstract

The newly consolidated democracies in Central and Eastern Europe (CEE) have generated distinct institutional settings and patterns of economic performance. This is tested here by applying a quantitative comparative study of ten new EU-member states from 1995 to 2005. Based on the seminal works of Arend Lijphart and Douglas Hibbs on different macroeconomic policies of consensus and majoritarian democracies, on the one hand, and Left and Right governments, on the other, this article identifies clear patterns of economic performance: a 'low-unemployment—high-inflation' performance style on the one hand and a 'high-unemployment—low-inflation' one on the other. Unlike most political science research on CEE countries we argue that the different performance patterns can be explained by domestic institutional settings and party politics. These findings remain valid even when controlling for the impact of international factors, which have been paramount in the explanation of policy outcomes in CEE.

Keywords: Economic Performance , CEE, Institutional Settings, Left/Right Ideology

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1 Introduction

One of the main reasons that the former Communist states of Central and Eastern Europe (CEE) crumbled was their poor economic performance in the 1980s. Following the collapse of their Communist regimes and throughout the early-1990s, new state structures and institutional arrangements emerged. The CEE countries established nascent democratic structures and, after a turbulent period until the mid-1990s, became consolidated new democracies and a decade later new EU-member states. While the first years of transition were characterized by economic crisis and gradual consolidation, by the second half of the 1990s and into the first years of the new millennium these states had returned to 'normal politics'.[1]

Overcoming the Communist system was inseparably linked with the hope of better economic performance but also with the broader notion of establishing secure and prosperous societies. Thus, at least for the post-Communist regimes, economic performance is not judged solely by the achievement of economic growth, as some scholars suggest,[2] but also requires the improvement of living standards and the establishment of social security systems.[3] Therefore, a broader concept of economic performance is applied in this paper.[4]

The key advantage arising from a more comprehensive definition of economic performance is that it allows for the identification of different patterns of economic performance. Varied patterns of economic performance of CEE countries can be identified on the premise of the Phillips curve, which proposed that a trade-off exists between inflation and unemployment.[5] While some states aim to obtain a stable economy by means of low inflation and economic growth, other states, which are equally successful economically, seek to minimize unemployment even at the expense of higher inflation. Even if the Phillips' curve has been disputed and the preference between low unemployment, on the one hand, and low inflation, on the other, is rather simplistic, the concept can serve as a valuable heuristic device. Actually, in comparative politics it is a basic assumption that Left governments strive for low unemployment even at the cost of higher inflation and Right governments have just the opposite preference. In his seminal article Douglas Hibbs argues '… that the objective economic interest as well as the subjective preferences of lower income and occupational status groups are best served by a relatively low unemployment-high

1 The term 'normal politics' refers to the period after 'extraordinary politics' and is defined as the period when preferences and interests are formed and stable; Amanda Rose 'Extraordinary Politics in the Polish Transition', Communist and Post-Communist Studies 32 (1999), p. 197; Claus Offe, 'Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe', Social Research 71 (2004), pp. 501-28; Leszek Balcerowicz, Socialism, Capitalism, Transformation, (Budapest: Central European Press, 1995).

2 Luiz C. Bresser Pereira, Jose M. Maravall and Adam Przeworski, Economic Reform in New Democracies: A Social-Democratic Approach (New York: Cambridge University Press, 1993); Timothy Frye, 'The Perils of Polarization. Economic Performance in the Postcommunist World.', World Politics, 54 (2002), pp. 308-337.

3 Terry Cox and Bob Mason, Social and Economic Transition in East Central Europe (Cheltenham: Edward Elgar, 1999).

4 Robert J. Jr. Franzese, Macroeconomic Policies of Developed Democracies (Cambridge, UK: Cambridge University Press, 2002).

5 Alban Williams Phillips, 'The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861-1957', Economica, 25 (1958), pp. 283-299.

inflation macroeconomic configuration, whereas a comparatively high unemployment-low inflation configuration is comparable with the interests and preferences of upper income and occupational status groups.'[6] These differences in the economic interest and preferences of income and occupational groups are reflected in the contrasting positions of leftist and rightist parties. Most clearly this can be identified in their positions towards unemployment and inflation: '… labor-oriented, working-class-based Socialist and Labor parties typically attach far greater importance to full employment than to inflation, whereas business-oriented, upper middle-class-based Conservative parties generally assign higher priority to price stability than to unemployment.'[7] In this paper we will test whether this conclusion also holds true after the consolidation of the economies in the countries of CEE. Research on the institutional settings of Western democracies shows that there are distinct patterns of democracy which have specific impacts on economic performance. Most prominent is Lijphart's thesis of patterns of democracy which ascertains that consensus democracies are the "kinder and gentler" democracies which have lower unemployment and lower inflation compared to majoritarian democracies.[8]

However, recent research testifies that neither Lijphart's concept of patterns of democracies[9] nor the Left/Right dimension travels well to CEE. It has often been argued that the Left/Right semantic has no meaning and explanatory power in CEE.[10] Some even argue that Left and Right have contradictionary impacts in CEE in comparison to Western democracies: rightist parties prefer higher social expenditure than leftist parties.[11] We will test the impact of consensus/majoritarian democracies by modifying Lijphart's approach. In order to identify different impacts of institutional settings and the Left/Right dimension we focus on patterns of economic performance which have Left/Right ideological implications.

However, recent contributions to political science and international relations suggest that globalization modifies or even determines domestic politics and policies and may have led to a decline in nation states' capacities to shape policies within their territory. For instance, Ohmae and Strange contend that international factors are now the main driving force for domestic policies.[12] In the context of CEE this aspect is of particular relevance. Most analyses in the literature have generally assumed that emerging political systems might be more easily affected by external factors than established ones. This trend is likely to have been reinforced by CEE countries' applications for European Union (EU) membership, which put substantial

6 Douglas A. Hibbs, 'Political Parties and Macroeconomic Policy', American Political Science Review 71 (1977), pp. 1467-87, at p.1467.

7 Hibbs, 'Political Parties and Macroeconomic Policy', p.1470.

8 Arend Lijphart, Patterns of Democracy. Government Forms and Performance in Thirty-Six Countries, (New Haven, CT: Yale University Press, 1999).

9 Andrew Roberts, 'What Kind of Democracy is Emerging in Eastern Europe?', Post-Soviet Affairs 22 (2006), pp. 37-64; Jessica Fortin, 'Patterns of Democracy? Counter-Evidence from Nineteen Post-Communist Countries', Zeitschrift für Vergleichende Politikwissenschaft 2 (2008), pp. 198-220.

10 Gary Marks, Liesbet Hooghe, Moira Nelson and Erica Edwards, 'Party Ideology and European Integration in East and West: Different Structure, Same Causality', Comparative Political Studies 39 (2006), pp. 155-75.

11 Margit Tavits and Natalia Letki, 'When Left is Right: Party Ideology and Policy in Post-Communist Europe.', American Political Scince Review 103 (2009), pp. 555-569.

12 Kenichi Ohmae, The End of the Nation State: The Rise of Regional Economies (New York: Free Press, 1995); Susan Strange, The Retreat of the State. The Diffusion of Power in the World Economy (Cambridge: Cambridge University Press, 1996).

peer pressure on their domestic politics and policies.[13] Therefore, variables that capture international influences are incorporated into this analysis. Only by including these factors we can be certain not only that domestic politics matter, but that they matter most. In sum, we test the impact of institutional settings of governments, the Left/right dimension and the impact of globalization on economic performance. Understanding this triangle is essential to explain economic performance in CEE.

This paper is structured as follows. In the first part of the paper several concepts of economic performance are introduced. In the second part, major approaches to the analysis of democratic political systems are discussed regarding their perspectives on the relationship between institutional structures and economic performance. In this part of the paper we develop the concept of power dispersion, which combines elements of Lijphart's theory on patterns of democracies and veto player theory. We then ask whether it matters which parties are in government. Furthermore, the impact of international factors on economic performance is discussed. Parts three and four outline the analytical model, the statistical procedures and the results of the analysis. The article concludes by discussing the main findings.

2 Patterns of Economic Performance in Central and Eastern Europe

Four different indicators for economic performance are applied in this study in order to test the impact of institutional settings, Left/Right ideology and globalization on economic performance. The first two measures are pure, non-ideological performance indicators, while the latter two focus on patterns of performance which can be attributed to Left and Right positions. First, we use the change rate of the Gross Domestic Product (GDP), which we call 'economic growth' (*growth*). This indicator is parsimonious and has often been used in similar studies.[14] Although narrow in focus, it gives a good idea of the economic strength of the CEE states. Second, we use an index that combines GDP, inflation, and unemployment by summing up the z-scores and changing the signs when necessary. This index combines the development of the GDP with indicators of fiscal and labor market performance. The summation of unemployment and inflation rates is commonly known as the misery index.[15] Measuring a state's ability to keep the 'misery' part low while simultaneously attaining continuous economic growth is the rationale of this index. We label this index *economic performance*:

Economic Performance = GDP (log) + (Inflation * -1) + (Unemployment * -1) (1)

[13] Frank Schimmelfennig and Ulrich Sedelmeier, eds., *The Europeanization of Central and Eastern Europe* (Ithaca, NY: Cornell University Press, 2005).

14 Bresser-Pereira et al., Economic Reform in New Democracies; Frye, 'The Perils of Polarization. Economic Performance in the Postcommunist World'.

15 Robert J. Barro, Getting it Right. Markets and Choices in a Free Society, (Cambridge, MA: MIT Press, 1998); Arthur M. Okun, Potential Outputs: Its Measurements and Significance. (Paper presented at the American Statistical Association: Proceedings of the Business and Economic Section, Washington, DC, 1962); Arthur M. Okun, Equality and Efficiency: The Big Tradeoff. (Washington DC: Brookings Institution, 1972).

Growth and *economic performance* give us a general idea of the overall economic success of a state. However, they provide very little information on the actual quality of economic performance. Thus these indicators are not very useful for the analysis of performance patterns. In order to distinguish between the preferences of fighting above all unemployment or inflation we combine general productivity (GDP), fiscal stability (inflation) and social security (unemployment) in a meaningful manner. For that purpose we refer to the trade-off between inflation and unemployment. As most efficient economies which favour upper income and occupational status groups focus on low inflation rates these represent a suitable indicator of stable fiscal markets. In contrast to the inflation rate, the unemployment rate captures the social component of an economy in that it benefits above all the lower income and occupational status groups. We include the GDP in both indices because a high GDP is essential for an efficient economy regardless of whether the economic style is 'anti-inflation' or 'anti-unemployment' oriented. Even if this operationalization is rather crude it may be a feasible way of distinguishing conflicting preferences in economic policy in aggregate data analysis.

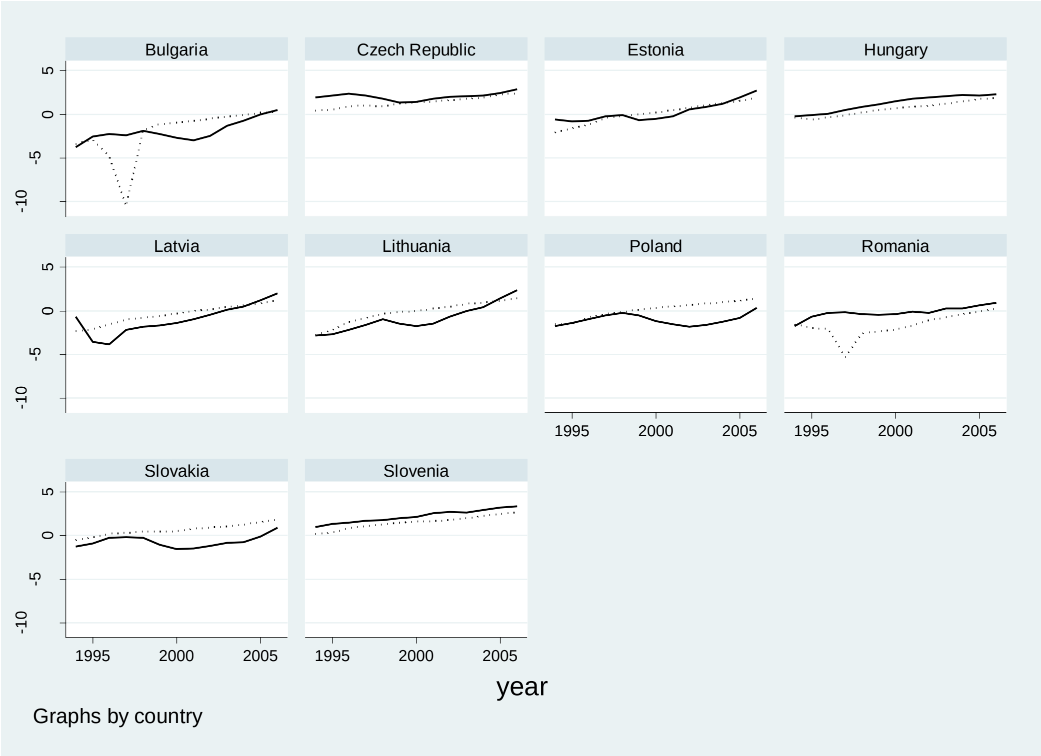
Needless to say, all states seek to reduce both inflation and unemployment. However, we argue that some countries are more successful in one aspect than the other and that this pattern in the outcome variable correlates systematically with institutional settings and Left/Right government positions. Since all states try to combine both policy goals and since GDP is a component of both indices, *anti-inflation* correlates with *anti-unemployment* to a certain degree (r = .61). This correlation demonstrates that the trade-off between low unemployment and low inflation is not perfect in current policy outcomes in CEE. This also means that a positive performance in one aspect is associated with a positive performance in the other. However, both indicators are still dissimilar enough to identify the two different patterns of performance, as the following empirical analysis will demonstrate. Equation 2 and 3 summarize the operationalization of the two patterns of economic performance.

Anti-Unemployment = GDP (log) + (Unemployment * -1) (2)

Anti-Inflation = GDP (log) + (Inflation * -1) (3)

Figure 1 shows the development of the two indicators between 1994 and 2005 in CEE.

Figure 1: The Development of 'Anti-Unemployment' and 'Anti-Inflation' Performance Patterns in CEE



Economic performance patterns are rather stable when we look at their development over time. The solid line shows the development of the index of an *anti-unemployment* performance pattern while the dotted line demonstrates the index of an *anti-inflation* pattern. For the three countries with an *anti-unemployment* economic performance patterns – Slovenia, the Czech Republic and Hungary – the index scores for the *anti-unemployment* pattern have been continuously higher than the scores for the *anti-inflation* performance pattern. The same is true for Romania. The big dip in the *anti-inflation* performance pattern in Romania, as well as in Bulgaria, in 1997 was in both countries caused by very high inflation rates. The long-term development shows that Bulgaria features an *anti-inflation* pattern of economic performance since 1998. An *anti-inflation* performance pattern has been consistently preferred in Lithuania, Latvia and Slovakia and has also been dominant in Poland since 1998/9.

Having identified the distinct patterns of economic performance in CEE raises the following question: How can we explain the differences in economic performance patterns in the countries of CEE? In the following section we introduce several causal mechanisms that might account for these different outcomes.

3 Explaining Patterns of Economic Performance in Central and Eastern Europe

There is a heated debate in the social sciences on the causality of policy outcomes. Some claim that in the era of globalization individual states have only a very limited capacity to determine policies and policy outcomes within the national framework.[16] Instead, outcomes may be highly influenced by international factors such as trade embeddedness and membership in supra-national organizations. It is commonly held that small states, such as the countries in CEE, are influenced by international factors more strongly than are large states.[17] However, even though we acknowledge that international factors have an impact on domestic affairs, we challenge the assumption that these dominate over domestic policies. We argue that domestic politics are often mis-specified in macro-comparative studies and that it is for this reason it does not seem to have visible explanatory power. Therefore, we develop a concept of power dispersion with reference to the work of Arend Lijphart und George Tsebelis.

Domestic Polities and Politics

Explaining economic performance is a complex task. This is particularly true for countries that have gone through a transition both from command to market economies and from autocracy to democracy. These new democracies had to create and consolidate sustainable institutional settings. These settings establish the framework for the political game, which in turn influences policies and outcomes. Recent discussions about established democracies highlight that there are multiple forms of democracy, each of which may have a different and significant impact on politics and policies. Building on research on corporatism[18] and welfare state development,[19] Kathleen Thelen,[20] Herbert Kitschelt and colleagues[21] and Peter Hall and David Soskice[22] have developed the concept of production regimes. Yet research on these aspects within CEE is still in its fledgling stages. Thus far studies in this area have consisted only of purely comparative case studies[23] or have been studies that distin-

16 Ohmae, The End of the Nation State; Strange, The Retreat of the State; Linda Weiss, The Myth of Powerless States, (Ithaca, NY: Cornell University Press, 1998); for an overview of the debate see David Held and Anthony McGrew, Globalization/Anti-Globalization, (Cambridge: Polity, 2002); Etel Solingen, 'The Global Context of Comparative Politics', in Mark I. Lichbach and Alan S. Zuckermann, eds, Comparative Politics: Rationality, Culture, and Structure, (New York, NY: Cambridge University Press, 2009), pp. 220-25.

17 Peter J. Katzenstein, Small States in World Markets: Industrial Policy in Europe, (Ithaca, NY: Cornell University Press, 1985).

18 Philippe C. Schmitter, 'Still the Century of Corporatism', Review of Politics 36 (1974), pp. 85-131.

19 Gøsta Esping-Andersen, The Three Worlds of Welfare Capitalism, (Princeton, NJ: Princeton University Press, 1990).

20 Kathleen Thelen, 'Beyond Corporatism: Toward a New Framework for the Study of Labor in Advanced Capitalism', Comparative Politics 27 (1994), pp. 107-24.

21 Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski and Gábor Tóka, Post-Communist Party Systems. Competition, Representation, and Inter-Party Cooperation, (Cambridge, UK: Cambridge University Press, 1999).

22 Peter A. Hall and David W. Soskice, eds, Varieties of Capitalism. The Industrial Foundations of Comparative Advantage, (Oxford: Oxford University Press, 2001).

23 Clemens Buchen, East European Antipodes: Varieties of Capitalism in Estonia and Slovenia, (Paper presented at the Pre-Publication Conference 'Varieties of Capitalism in Post-Communist Countries', Paisley University, Paisley, UK. September 2005); Magnus Feldmann, 'Emerging Varieties of Capitalism in Transition Countries', Comparative Political Studies 39 (2006), pp. 829-54.

guished the countries of CEE by using outcome variables in order to identify regimes. Initial results from research in this tradition seem to indicate that there is very little variation between the CEE countries. For instance, Bohle and Greskovits find that only Slovenia meets the criteria of neocorporatism.[24] All the Baltic States fall into the category of neoliberal states while the Visegrád states (the Czech Republic, Hungary, Poland, and the Slovak Republic) are found to be embedded neoliberal states.[25] However, because they use policy variables in order to identify production regimes, Bohle and Greskovits are not able to conduct a causal analysis of the impact of production regimes on policies and policy outcomes.

In order to distinguish between dependent (performance) and independent (regime, etc.) variables we turn to concepts that, firstly, address the specific settings of government and, secondly, vary between the countries in CEE and over time. We begin with Lijphart's concept of patterns of democracy. Although Lijphart's identification of two distinct patterns of democracy is path breaking and essential to the analysis of political processes and outcomes, his approach is not specific enough for time-variant empirical studies and does not seem to travel well to CEE.[26] Therefore, we combine elements of Lijphart's concept with elements of veto player theory in order to obtain an expedient concept of power dispersion. Our analysis of power dispersion is based on the assumption that governments are at the centre of power. We thus apply an actor-centric approach. In this context, two aspects of power dispersion are important to consider: (a) the power of government vis-à-vis the opposition, and (b) the dispersion of power within government.

Power Dispersion: Arend Lijphart distinguishes between democracies that are more consensus oriented and those that are more majoritarian.[27] He claims that different institutional settings have a fundamental impact on performance styles. Institutional settings that promote a consensus oriented style lead to 'kinder and gentler' democracies. Lijphart's main theoretical claim is that consensus democracies disperse power while majoritarian democracies concentrate power in the hands of the executive. However, Lijphart's concept has been criticized on several grounds.[28] In particular, the high level of aggregation and the conceptual logic of his major variable, as well as its operationalization, have been challenged. For instance, Lijphart does not only consider the parliamentary process but also includes the political context (corporatism, central banks, judicial review, etc.) in his index. Such confusion of different variables makes causal analysis impossible.

24 Dorothee Bohle and Béla Greskovits. 2007. 'Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Transnational Capitalism in Central-Eastern Europe', West European Politics 30 (2007), pp. 443-66.

25 Embedded neoliberal states are less market-liberal and socially more inclusive than neoliberal states (higher expenditure on social protection, active and passive labor market policies, and a higher coverage rate of collective bargaining).

26 See: Roberts, 'What Kind of Democracy is Emerging in Eastern Europe?' and Fortin, 'Patterns of Democracy?'.

27 Arend Lijphart, Patterns of Democracy.

28 Matthijs Bogaards, 'The Uneasy Relationship between Empirical and Normative Types of Consociational Theory', Journal of Theoretical Politics 12 (2000), pp. 395-423; Rein Taagepera, 'Arend Lijphart's Dimensions of Democracy: Logical Connections and Institutional Design', Political Studies 51 (2003), pp. 1-19; Steffen Ganghof, 'Understanding Democratic Inclusiveness. A Reinterpretation of Lijphart's Patterns of Democracy', British Journal of Political Science, 40 (2010), pp. 679-92.

In order to overcome some of these problems we limit ourselves to an actor-centric perspective that puts governments at the center of the analysis. Operationalizing power dispersion on this level is easier since we can focus on specific aspects. The analytical distinction between the concentration versus dispersion of executive power is helpful for our analysis since it is actor-centric and entails clear empirical consequences.[29] Lijphart himself states that inclusiveness at the cabinet level is the '… first and most important characteristic of consensus democracy'.[30] The best variable for the measurement of this concept is popular legislative support, i.e. the combined share of the vote of legislative coalitions.[31] The power of government vis-à-vis the opposition is most clearly defined by the extent of a government's majority over the opposition parties. The greater the government parties' majority the more centralized is power. Government power is strongly dispersed in minority governments, where the government is dependent upon the opposition, but power is dispersed also in small majority governments, since such a government needs to make compromises in order to survive. Weak legislative support gives individuals and factions power to influence government activity.

We contend that the aspect of government strength vis-à-vis the opposition is decisive for the power dispersion *of* governments and needs to be included in any index of executive inclusiveness or power dispersion. Furthermore, it is essential to include the power dispersion *within* governments. With regard to this dimension, power can be in the hands of one party or it can be dispersed over multiple parties (coalitions). This consideration is at the heart of veto player theory. If many political actors are involved in policy decisions – as proposed by veto player theory[32] – there is little chance to change the status quo, i.e. there is little policy change. When the actors involved have highly divergent opinions regarding policy choices the opportunity to change the status quo declines even further. Although they are by no means identical, Lijphart's and Tsebelis' approaches postulate that majoritarian systems, or systems with few veto players, can change the status quo more easily than consensus systems, or systems with many veto players. In consequence, the degree of power dispersion within political systems is at the heart of both Lijphart's and Tsebelis' approaches.

Although our concept of intra-government dispersion of power is based on the veto players approach, we do not see veto players within government as actors that

29 Even if the electoral system might have an effect on actors' behavior it is indirectly connected with power dispersion. The same is true for the number of parties. Both factors –electoral system effects and the number of parties – come into effect through the power dispersion of executives. We have similar reservations about the inclusion of variables such as cabinet lifetime in an index of government power (see also Tsebelis, 'Agenda Setting and Executive Dominance in Politics' for a critique of Lijphart's concept in this regard).

30 Arend Lijphart, 'Back to the Democratic Basics: Who Really Practices Majority Rule?' in Axel Hadenius, eds, Democracy's Victory and Crisis, (Cambridge: Cambridge University Press, 1997), pp. 143-60, at p.144.

31 Ganghof, 'Understanding Democratic Inclusiveness'; Jack H. Nagel, 'Expanding the Spectrum of Democracies: Reflections on Proportional Representation in New Zealand', in Markus M.L. Crepaz, Thomas Koelble and David Wilsfor, eds, Democracy and Institutions: The Life and Work of Arend Lijphart, (Ann Arbor, MI: University of Michigan Press, 2000), pp. 113-29, at p. 121; Lijphart, 'Back to the Democratic Basics', p.157, rejects this variable because in his view minority governments are misjudged. For a discussion of this point see Ganghof, 'Understanding Democratic Inclusiveness'.

32 George Tsebelis, Veto Players. How Political Institutions Work, (Princeton, NJ: Princeton University Press, 2002).

obstruct policy change. Instead we consider them as actors that share power and who have to strike compromises in order to realize their policy goals. In respect thereof, we regard coalition governments as collective veto players.[33] The primary goal of collective veto players is to reach a compromise *in order to change* policies. In contrast to Tsebelis' approach, which postulates that partisan veto players obstruct policy change, we assume that parties in government want to shape policy. In coalition governments policies are not vetoed in a take-it-or leave-it-manner and instead power is necessarily dispersed across coalition parties, which therefore requires compromise. Nevertheless, we agree that veto players weaken a government's effectiveness and that this may in turn result in inefficiency.

The dispersion of power within governments depends on two factors: the number of government parties on the one hand and their programmatic coherence on the other. In the literature these two aspects often serve as functional equivalents.[34] However, this treatment is not justified on either analytical or empirical terms. Analytically, Axelrod[35] argues that minimal connected winning coalitions can include a higher number of parties in government than would be necessary but that this would not implicitly increase the ideological range. Consequently, the occurrence of more parties does not automatically enlarge the veto player range. This function is inherent in the absorption rule of veto player theory.[36] Furthermore, it has been shown that costs do not significantly increase upon inclusion of one surplus party in government.[37] The benefit of this strategy is the elimination of a potential veto player and/or the reduction of the opposition's power. Empirically the correlation between the number of government parties and their ideological range is .62 in CEE, which is a strong correlation but does not indicate whether both variables in fact measure identical concepts.

Based on the above consideration, in order to measure the dispersion of government power we combine three variables: (a) the parliamentary support of governments, (b) the effective number of government parties, and furthermore, (c) the ideological distance between government parties. The variable parliamentary support takes into account the number of parliamentary seats that are controlled by the governing parties. It measures the government's dispersion of power vis-à-vis the opposition. The effective number of government parties and the ideological distance between the government parties measure power dispersion within the government.[38] The distance between the two most opposing government parties is meas-

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33 Markus M.L. Crepaz and Ann Moser, 'The Impact of Collective and Competitive Veto Points on Public Expenditures in the Global Age', Comparative Political Studies 37 (2004), pp. 259-85.

34 Scott J. Basinger and Mark Hallerberg, 'Remodeling the Competition for Capital: How Domestic Politics Erase the Race to the Bottom', American Political Science Review 98 (2004), pp. 261-76.

35 Robert M. Axelrod, Conflict of Interest: A Theory of Divergent Goals with Applications to Politics, (Chicago, IL: Markham, 1970), pp. 165-87.

36 Tsebelis, Veto Players, pp. 26-30.

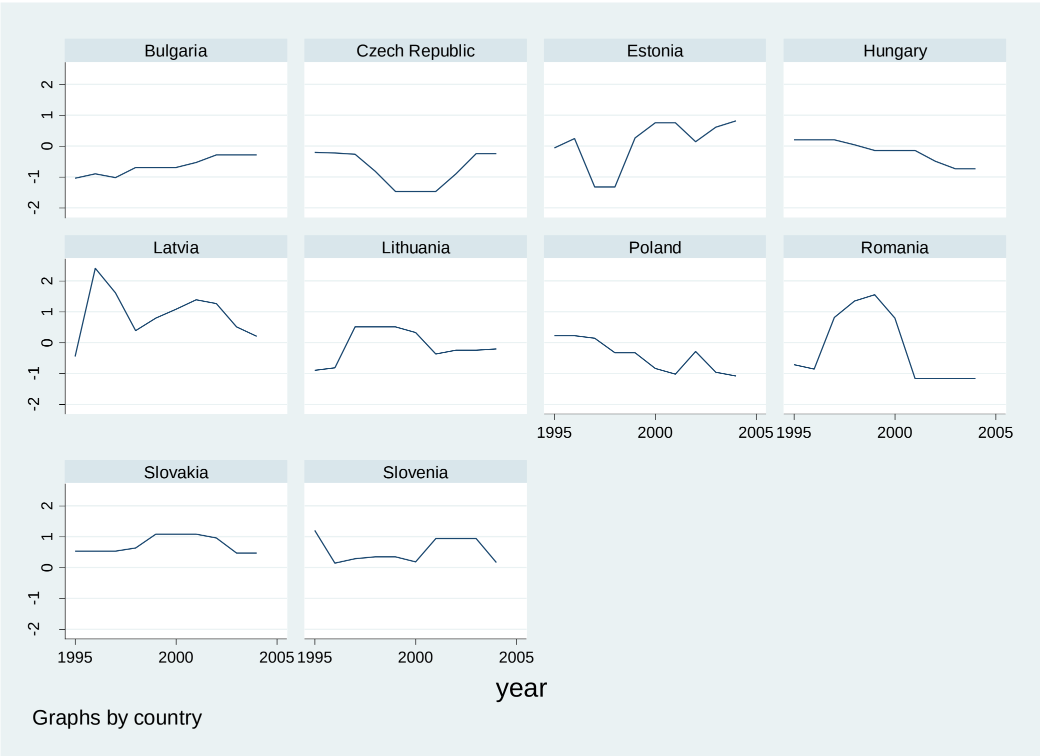
37 Lanny W. Martin and Randolph T. Stevenson, 'Government Formation in Parliamentary Democracies', American Journal of Political Science 45 (2001), pp. 33-50.

38 Other indicators mentioned in Lijphart's theoretical argument will not be considered because strong bicameral systems and federalism do not exist in the ten CEE countries, except for Romania where the second chamber is more powerful than in any other country of the region. The same is true for the constitutional power of the President. Apart from Poland and Romania the constitutions of all other CEE countries do not allocate strong veto positions to presidents. The limited variation in these indicators is an important reason for their exclusion. However, an even more important motivation is

ured by the ideological range on the Left/Right dimension and can take a maximum value of 20 (for the data source and operationalization see the section on government positions).

Empirically, the extreme form of centralized government power (one party majority government) has been rare in CEE. A clear one party majority government occurred only from 1996 to 2000 in Bulgaria and in Estonia in 1997. In all other instances there was at the very least a trade-off between a low ideological government range in minority governments, or a high ideological range with majority status. Figure 2 depicts governments' dispersion of power in CEE from 1995 to 2005.

Figure 2: The Dispersion of Government Power in Central and Eastern Europe



High positive values indicate a dispersion of power while high negative values identify concentrated government power. There are discernable trends over time. Countries like Bulgaria and Estonia moved from centralized to more dispersed government power, although Bulgaria clearly is a country with centralized power over the entire period of time. The opposite trend can be identified in Hungary and Poland, where government power became more centralized. All other countries alternate in their degree of power dispersion.

To sum up our theoretical argument and connect it to Lijphart's terms, power dispersion has the same effect as consensus democracies and centralized power has the same effect as majoritarian democracies. Power dispersion requires that political actors make compromises while centralized power allows for decisions to be made more independently. These assumptions lead us to the following hypotheses:

the fact that these variables are not components of parliamentary systems. Including them would make the identification of causal relationships difficult.

Hypothesis 1: (Power Dispersion)

Power dispersed democracies generate an *anti-unemployment* economic policy pattern, which in turn entails some short-comings with regard to economic efficiency.

Hypothesis 2: (Power Centralization)

Power centralized democracies promote an *anti-inflation* economic policy pattern and are more efficient economically.

Apart from institutional variables the domestic political process in modern democracies is also dependent on the programmatic positions of governments. We will discuss this aspect in the following paragraph.

Government positions: The impact of governments' programmatic positions is a subject of heated academic debate. Many studies in the context of established democracies show that government positions seem to matter. Building on the classic 'parties matter' debate since the 1970s, in recent years more sophisticated studies have provided extensive evidence that government positions do matter.[39] In these studies strong predictive powers for explaining public policies have been attributed to the Left/Right dimension. Right-leaning governments support reforms aimed at market liberalization while Left governments favor higher social spending. However, it has often been asked whether the Left/Right dimension is also a determining factor in the context of new democracies, such as those in CEE.[40] Some even argue that Left and Right have opposite impacts in CEE than in Western democracies.[41] In order to answer this question in the context of our analysis of performance patterns we will use an index of governments' Left/Right positions in CEE.

We use data collected by Keith Benoit and Michael Laver[42] in order to capture governments' programmatic positions. We identified government parties and their position on the Left/Right continuum (*ideology*). The position was weighted by the number of seats government parties held in parliament. Government parties that were not considered by Benoit and Laver have been added by sending an identical questionnaire to country experts in the respective countries. The index ranges from 0 (Left) to 20 (Right). Figure 3 shows the development of governments' Left/Right positions in CEE over the last decade.

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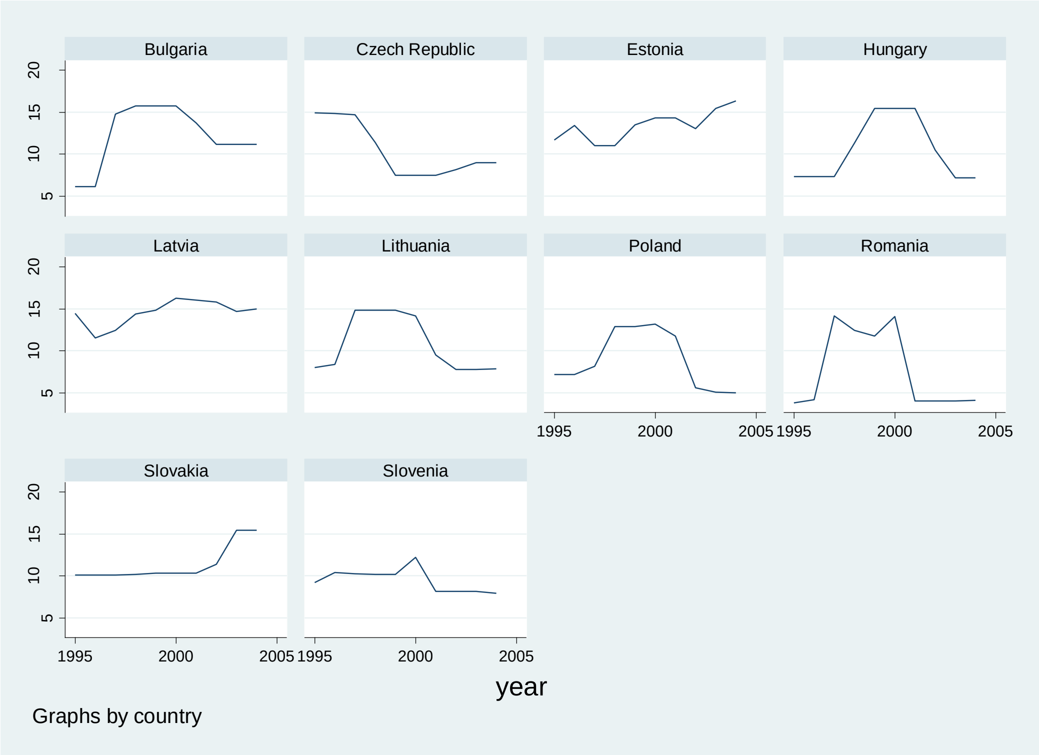
39 Hans Dieter Klingemann, Richard I. Hofferbert and Ian Budge, Parties, Policies, and Democracy, (Boulder, CO: Westview Press, 1994); Michael D. McDonald and Ian Budge, Elections, Parties, Democracy: Conferring the Median Mandate, (Oxford: Oxford University Press, 2005).

40 Marks et al., 'Party Ideology and European Integration in East and West'.

41 Tavits and Letki, 'When Left is Right'.

42 Kenneth Benoit and Michael Laver, Party Policy in Modern Democracies, (London: Routledge, 2006).

Figure 3: Governments' Ideological Positions in Central and Eastern Europe



There are three different patterns of government position: First, there is a set of countries that was governed only by parties leaning to the right over the entire period of time examined here. This is particularly true for Estonia, Latvia, and Slovakia. Secondly, there are four countries that have been ruled by parties with left orientation in six out of the ten years (the Czech Republic, Romania, Lithuania and Poland). Thirdly, in two countries (Slovenia and Hungary) the ideological positions of governments were mixed: five were leftist and another five were rightist governments. Bulgaria is an exception. Leftist governments ruled the country in 1995 and 1996 only. Since 1997 the majority of Bulgarian governing parties have oriented towards the ideological right.

The causal link between government position and political performance reflects the classic 'politics' or 'parties matter' hypothesis.[43] Governments with certain programmatic positions strive to realize their goals. Therefore, Left governments may prefer an *anti-unemployment* economic performance style. Right governments stress economic efficiency and may therefore prefer an *anti-inflation* economic performance style. Taking these assumptions into account one might assume that countries which have had above all left-of-center governments such as Romania or Poland should feature an *anti-unemployment* performance pattern. Latvia, Estonia and to a lesser degree Slovakia, which have always had right-of-center governments, should by contrast have an *anti-inflation* pattern of economic performance. In all

43 Hibbs, 'Political Parties and Macroeconomic Policy'; Francis G. Castles, ed, The Impact of Parties: Politics and Policies in Democratic Capitalist States, (London: Sage, 1982); André Blais, Donald Blake and Stéphane Dion, 'Do Parties Make a Difference? Parties and the Size of Government in Liberal Democracies', American Journal of Political Science 37 (1993), pp. 40-62; Manfred G. Schmidt, 'When Parties Matter: A Review of the Possibilities and Limits of Partisan Influence on Public Policy', European Journal of Political Research 30 (1996), pp. 155-83.

other CEE countries, governments have alternated between Left and Right. Therefore, we can assume that the style of economic performance has been highly contested in these countries.

Hypothesis 3: (Ideology)

Programmatic positions of governments have an impact on economic performance patterns. Left governments support an *anti-unemployment* performance while Right governments are associated with an *anti-inflation* preference.

The hypotheses mentioned up to this point state that domestic politics is still the decisive factor in the choice of policies to be implemented and outcomes to be realized. This perspective has been challenged in recent years. The claim that nation states have lost momentum in times of globalization and diffusion has led to the examination of additional explanatory factors.[44] Scholars who argue in favor of this approach consider it misleading to examine only nation states' institutional structures and politics to explain different performance styles. Instead, they hold that international factors, such as diffusion through globalization and international interdependencies, are the crucial factors for explaining policies and policy outcomes. When arguing from this point of view one would contend that the pressures of globalization force modern democracies to pursue more efficient economies. New democracies especially, such as the states in CEE, may have very little chance of directing their own economies. Pressures from the world market and the European Union may give national actors little leeway for independent maneuvering.[45]

International Pressure

In CEE international pressures have undoubtedly had an effect on domestic politics and economic performance. However, the causal mechanisms of international pressure are often anything but clear. There are at least three mechanisms that attempt to explain how international factors can influence domestic performance: (a) through economic exchange, (b) through the liberalization of trade restrictions, and (c) through membership in supranational organizations. We include variables from all three mechanisms as control variables in our analysis of the impact of domestic politics on national performance styles.

Economic flows: Economic flows can take different forms and have various impacts. Major indicators are economic openness measured as trade (sum of imports and exports as a percentage of GDP), foreign direct investments, and portfolio investments. The Swiss Economic Institute[46] offers an aggregated index for these international economic flows.[47] According to this index the Czech Republic, Hungary and above all Estonia have intensive economic flows with other countries. By con-

44 Beth A. Simmons and Zachary Elkins, 'The Globalization of Liberalization: Policy Diffusion in the International Ecological Economy', American Political Science Review 98 (2004), pp. 171-189; Detlef Jahn, 'Globalization as 'Galton's Problem': The Missing Link in the Analysis of the Diffusion Patterns in Welfare State Development', International Organization 60 (2006), pp. 401-31.

45 Schimmelfennig and Sedelmeier, The Europeanization of Central and Eastern Europe.

46 KOF (Konjunkturforschungsstelle an der Eidgenössische Technischen Hochschule Zürich), 'KOF Index of Globalization', available online at http://globalization.kof.ethz.ch/.

47 Axel Dreher, Noel Gaston and Pim Martens, Measuring Globalisation - Gauging its Consequence, (New York: Springer, 2008); We also conducted analyses with the individual indicators and obtained basically the same results.

trast, Slovenia, Slovakia and Romania are located at the other end of the scale. With regard to our dependent variables we may postulate that the more open a national economy vis-à-vis the world market, the more it has to obey international rules of competition. This might lead to an *anti-inflation* pattern of economic performance. However, this argument is not as straightforward as it may seem, as economic openness is also a sign of a strong economy which, in turn, may generate an *anti-unemployment* performance pattern. This leads to two hypotheses that postulate opposite outcomes in respect to our dependent variable. It is an empirical question which hypothesis prevails.[48]

Hypothesis 4.1: (Economic Flows)

Economic openness is an indicator for a strong economy and results in an *anti-unemployment* economy.

Hypothesis 4.2: (Economic Flows)

Economic openness forces liberal market standards on an economy and therefore supports an *anti-inflation* economy.

Economic Restrictions: While economic flows represent a policy outcome, economic restrictions are a policy variable. Both aspects are connected but not identical, as the empirical data show (r = .55). This is also apparent when considering countries with few restrictions, such as Hungary and the Czech Republic. But even countries with relatively low rates of international economic flow, i.e. Slovenia and above all Slovakia, have few restrictions. The index of economic restrictions has also been taken from KOF. The index measures restrictions on trade and capital through hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue) and an index of capital controls. Based on a certain level of trade, a country with higher revenues from trade taxes is less globalized. The index is based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions and includes 13 different types of capital controls. High values imply that countries have more extensively liberalized their trade policy.[49] The hypothetical relationship between economic restrictions and performance patterns is similar to that regarding the variable economic flow and, therefore, leads to two competing hypotheses.

Hypothesis 5.1: (Economic Restrictions)

The liberalization of economic restrictions is an indicator for a strong economy, in which case it leads to an *anti-unemployment* economy.

Hypothesis 5.2: (Economic Restrictions)

The liberalization of economic restrictions forces liberal market standards on an economy and therefore supports an *anti-inflation* economy.

48 Concerning the impact of economic flows and the other indicators of globalization in relation to domestic economic strength more research is needed. However, we use this variable solely as a control variable in our analysis. In this respect the direction of the impact has no substantial meaning.

49 We also used the new measure of Financial Openness by Chinn and Ito (2008). The results were similar to the index we used from KOF. However, the KOF data covered more time points for our countries and for this reason was used in our analysis.

Membership in supranational organizations: The most obvious supranational actor in Europe is the European Union (EU), by which CEE countries have certainly been influenced. This applies to almost all areas of politics and policy.[50] However, the nature of the EU's impact on domestic policies cannot be easily identified. As studies on social expenditure in OECD countries demonstrate, the effects of the EU have changed over time: While the EU has in the past reinforced higher social expenditures, this trend has reversed as globalization gained momentum.[51] Above all, the EU has an interest in stable economies in CEE. With respect to social aspects, the EU is increasingly committed to market liberalization. We, therefore, assume that the EU endorses an *anti-inflation* performance pattern over a *anti-unemployment* one.

The measure applied to determine the EU's impact is based on the amount of trade with the 15 EU countries. We think that this measure is more appropriate than using the closeness to the EU measured by the geographical distance from Brussels[52] or Vienna[53].[54] Trade with the EU has been essential for all CEE countries and substantially increased in the 1990s. Today it comes to between 50 and 70 percent, with the Czech Republic, Hungary and Slovenia leading and Bulgaria, Slovakia and Latvia lagging behind. Hypothesis 6 summarizes the assumed relationship between closeness to the EU and economic performance style.

Hypothesis 6: (European Union)

The closer a country is to the EU, the better is its economic performance. Since the EU is predominantly concerned with economic stability it promotes an *anti-inflation* economic performance pattern over an *anti-unemployment* one.

4 The Model

The countries that we consider in this analysis are the newly established democracies of CEE. All the countries that we include have been consolidated since 1995. The focus is on consolidated democracies only, which provides for a comparable sample of countries. The inclusion of countries with democratic deficiencies would have increased the property space and thus would have required the consideration of additional variables. With these criteria in mind, we attain a sample of ten established CEE-democracies, which we analyzed for the time period between 1995 and 2005.[55]

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50 David R. Cameron, 'Post-Communist Democracy: The Impact of the European Union', Post-Soviet Affairs 23 (2007), pp. 185–217; David R. Cameron, 'Creating Market Economies after Communism: The Impact of the European Union', Post-Soviet Affairs 25 (2009), pp. 1-38.

51 Jahn, 'Globalization as 'Galton's Problem''.

52 M. Steven Fish, 'The Determinants of Economic Reform in the Post-Communist World', East European Politics and Societies 12 (1998), pp. 31-78; Jeffrey S. Kopstein and David A. Reilly, 'Geographic Diffusion and the Transformation of the Postcommunist World', World Politics 53 (2000), pp. 1-37.

53 Herbert Kitschelt, Post-Communist Economic Reform. Causal Mechanisms and Concomitant Properties, paper presented at the 2001 Annual Meeting of the American Political Science Association, (San Francisco, CA. 29 August – 2 September).

54 Analyses with these distance measures did not lead to conclusive results.

55 These countries are: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, the Slovak Republic, and Slovenia. The criteria we used were 'free' according to the Freedom House Index and 'democratic' according to the Polity IV scores. We use 1995 as a starting point because this

The analysis was conducted in the standard tradition of time-series–cross-section data with panel corrected standard errors (PCSE) and a first-order auto-regression correction.[56] For all the outcome variables we used the changes of the dependent variable from one year to the next (first differences indicated with Δ). By doing so we focus on short-term changes and shifts between different patterns of performance. This modeling is appropriate since we are interested in the dynamics of performance patterns. In addition, we obtain the advantage that first difference models eliminate the problem of non-stationarity.

All independent variables were entered into regression analysis with their first difference and with the levels.[57] However, in most models, long-term effects (levels) had a higher impact on the dependent variables than short-term effects (first difference). The only exception was the impact of *EU-Trade* on *anti-unemployment*. Therefore we included this model in Table 2 (model 2). All other models contain only the level values for the independent variables. In addition, all independent variables have been lagged by one year. Finally, we included a full set of country dummies (fixed effects) and period dummies in all models in order to control for unspecified country and period effects.[58]

The measurements for veto points/players have been obtained by different means. Schmidt's and Wagschal's indices count the number of veto points while Crepaz uses factor analysis for the identification of differences in political systems. After having identified relevant veto players, Henisz and Tsebelis use their respective preferences as measurement for the estimation of veto player effects.

5 Results

The most important finding to emerge from our analysis is that different performance styles are indeed dependent on the differing conditions of the political systems (model 1 thru 3). *Power dispersion* and the impact of the programmatic positions of governments (*ideology*) show significant results. The impact proceeds in line with the hypothesized direction: If power is dispersed across governmental parties – or as Lijphart would say, are more consensus orientated – the economic performance pattern is *anti-unemployment* to a significant degree. Inversely, if government power is concentrated the performance pattern is significantly associated

year marked the stabilization of the economic system and the consolidation of the democratic political system in all CEE countries (see also Cameron, 'Post-Communist Democracy', pp. 198-204). Further economic crisis occurred only in Romania and Bulgaria in 1997. In order to control for temporal shocks and fluctuation we use a full set of year dummies in all models. As first differences were used we obtain 100 observations.

56 Nathaniel Beck, 'Time-Series—Cross Section Methods', in Janet M. Box-Steffensmeier, Henry Brady and David Collier, eds, Oxford Handbook of Political Methodology, (Oxford: Oxford University Press, 2008), pp. 476-93; Nathaniel Beck and Jonathan N. Katz, 'What to Do (and Not to Do) with Time-Series–Cross-Section Data', American Political Science Review 89 (1995), pp. 634-47; Sven E. Wilson and Daniel M. Butler, 'A Lot More to Do. The Sensitivity of Time-Series Cross-Section Analysis to Simple Alternative Specification', Political Analysis 15 (2007), pp. 101-23.

57 For a similar analysis see Torben Iversen and Thomas R. Cusack, 'The Causes of Welfare State Expansion. Deindustrialization or Globalization?', World Politics 52 (2000), pp. 313-49; Franzese, Macroeconomic Policies of Developed Democracies.

58 We conducted an F-Test which shows that it is also necessary from a statistical point of view to include country and year dummies. We ran the models without period dummies and essentially came to the same results with regard to our key variables.

with an *anti-inflation* pattern of economic performance. These results confirm hypotheses 1 and 2 that institutional settings and government ideology have a specific impact on economic performance patterns.

Table 1: Explaining Economic Performance in Central and Eastern Europe

	(1) *ΔAnti-Unem-ploymnent*	*(2)* *ΔAnti-Unem-ploymnent*	*(3)* *ΔAnti-Inflation*	*(4)* *Growth*	*(5)* *ΔEconomic Perfor-mance*	*(6)* *Growth*	*(7)* *ΔEconomic Perfor-mance*
Power Dispersion	0.200***	0.190***	-0.239*	0.297	-0.0535	0.244	0.0344
	(0.0507)	(0.0514)	(0.121)	(0.526)	(0.137)	(0.528)	(0.131)
Ideology	-0.0303*	-0.0288*	0.144*	0.141	0.108	0.150	0.0991
	(0.0127)	(0.0131)	(0.0570)	(0.114)	(0.0619)	(0.120)	(0.0539)
Economic Flow	0.00604	0.00910	0.0520**	0.0697	0.0558**	0.0739	0.0247
	(0.00744)	(0.00563)	(0.0195)	(0.0637)	(0.0209)	(0.0627)	(0.0186)
Economic Restrictions	-0.0133	-0.00909	0.0507	0.0460	0.0350	0.0494	0.0331
	(0.00940)	(0.00939)	(0.0415)	(0.0921)	(0.0433)	(0.0912)	(0.0355)
ΔEU-Trade		-0.0267*					
		(0.0127)					
EU-Trade	0.00442	0.0325*	0.0480	0.186*	0.0501	0.191*	0.0485
	(0.0123)	(0.0148)	(0.0401)	(0.0883)	(0.0411)	(0.0877)	(0.0304)
Anti-Unem-ployment						-0.00469	-0.222
						(0.504)	(0.179)
Anti-Inflation						0.151	-0.718**
						(0.418)	(0.255)
_cons	1.002	-1.363	-11.63	-15.98	0	0	-5.303
	(1.352)	(1.422)	(6.080)	(11.07)	(0)	(0)	(4.911)
N	100	90	100	100	100	100	100
R2	0.505	0.592	0.271	0.410	0.249	0.418	0.519

Regressions are ordinary least squares (OLS) with panel-corrected standard errors (PCSE) for time-series cross-section (TSCS) analysis. Equations are first-order autoregressive (Beck and Katz 1995). First line is the non-standardized coefficient; corrected standard errors are in parentheses. All models include country and year dummies (not shown). Level of significance: * = .05 and lower; ** = .01 and lower; *** = .001 and lower.

In our analysis a government's programmatic position on a Left/Right dimension is also a critical factor in determining the pattern of economic performance. Again the sign changes as suggested in hypothesis 3 and the results are significant. We can, therefore, conclude that Left governments are aligned with an *anti-unemployment* economic performance pattern while Right governments are significantly associated with an *anti-inflation* one. This result explicitly shows that the Left/Right dimension has a significant meaning for various economic performance styles in CEE.[59] The results alo show that Left and Right have the same impact in the new EU-member states than in Western democracies.

When turning to international factors few significant results were found.[60] Consequently, we contend that patterns of economic performance are above all deter-

59 We calculated all models without Bulgaria and Romania in 1997 because both countries had very high inflation rates in this year. The results for power dispersion and ideology remained the same except that power dispersion became insignificant for model 2. However, the sign remained negative.

60 We also analyzed international diffusion by competition (Nathaniel Beck, Kristian S. Gleditsch and Kyle C. Beardsley, 'Space is More Than Geography: Using Spatial Econometrics in the Study of Polit-

mined by domestic politics. This confirms findings by other studies that have identified domestic politics as having the dominant impact on policies and policy outcomes in CEE.[61] However, the signs of the coefficients show that international pressure seems to support an *anti-inflation* performance pattern as opposed to an *anti-unemployment* one. This is especially true for hypothesis 4.2, which is confirmed by the data. Concerning hypothesis 5.1 and 5.2 we do not obtain significant results. The signs show that hypothesis 5.1 is falsified and that hypothesis 5.2 gains limited support.

The closeness of the CEE countries to the EU yields highly interesting results. Hypothesis 5 is confirmed insofar as *EU-Trade* is significantly associated with a positive economic performance (*growth*). However, its impact on performance patterns remains ambiguous. While we cannot identify significant results with regard to the *anti-inflation* performance pattern, the impact on the *anti-unemployment* performance pattern is intriguing. The long-term effect of *EU-Trade* is positive. From this we can deduce that countries with high trade exchanges with the EU feature an *anti-unemployment* economic performance pattern. However, the short-term effect of *EU-Trade* is negative. This result confirms findings from research on West European member states that shows the EU supported welfare state development in the 1980s but moved away from this policy in the 1990s.[62]

In order to find out if the political and international variables have an impact on the 'ideologically free' performance indicator we run models 4 thru 7 with *growth* and *economic performance* as dependent variables. The result is that domestic variables don't have the same impact on non-ideological performance indicators. For *growth*, as well as for the highly aggregated *economic performance* index, the results for *power dispersion* and *ideology* are not significant. This might be the reason why other studies conclude that domestic political variables and above all the Left/Right dimension have no explanatory power in the context of CEE.

Finally, in models 6 and 7 we analyze to what extent economic performance styles affect *economic performance*. For the analysis of this aspect *anti-inflation* and *anti-unemployment* are included in the models as independent variables. However, since the dependent variables are elements of *anti-inflation* and *anti-unemployment* we come across an endogeneity problem. Results should therefore be interpreted with caution. In view of this, the results in models 6 and 7 illustrate that we cannot conclude that the *anti-unemployment* economic performance pattern is less efficient

ical Economy', International Studies Quarterly 50 (2006), pp. 27-44; Robert J. Jr. Franzese and Jude C. Hays, 'Interdependence in Comparative Politics', Comparative Political Studies 41 (2008), pp. 742-80; Jahn, 'Globalization as 'Galton's Problem''; Simmons and Elkins, 'The Globalization of Liberalization'). For this analysis we included all countries which are relevant to CEE and for which we could obtain data for the dependent variables and trade rates. The countries are Australia, Austria, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Island, Ireland, Italy, South Korea, Latvia, Lithuania, Mexico, Netherland, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom, and the USA. The results were all insignificant and therefore are not reported here.

61 Detlef Jahn and Ferdinand Müller-Rommel, 'Political Institutions and Policy Performance in New Democracies. A Comparative Analysis on Central Eastern Europe', Journal of Public Policy, 30 (2010), pp. 23-44; Detlef Jahn and Kati Kuitto 'Taking Stock of Policy Performance in Central and Eastern Europe: Policy Outcomes between Policy Reform, Transitional Pressure and International Influence', European Journal of Political Research (published online first: DOI: 10.111/j.1475-6765.2010.01981.x).

62 Jahn, 'Globalization as 'Galton's Problem''.

than the *anti-inflation* one. Concerning *economic performance* both performance patterns are actually correlated negatively. With respect to growth, the anti-unemployment pattern has a negative association while the anti-inflation has a positive one. While we can confirm the first part of hypotheses 1 and 2 – governments in which power is dispersed lead to an anti-unemployment economic performance pattern while democracies in which power is concentrated foster an anti-inflation pattern of economic policy – we find no evidence that anti-inflation performance patterns are more efficient. Actually, the results indicate that there is a significant negative correlation between anti-inflation performance patterns and economic performance. Hence this result mirrors Lijphart's conclusion for established democracies.

6 Conclusion

'Politics Matters' is the overall conclusion of this article. In order to explain different styles of economic performance it is important to consider what kind of institutional setting is established and which programmatic positions governments assume on a Left/Right dimension. Both variables contribute significantly to explaining patterns of economic performance. The 'anti-unemployment' economic performance pattern is associated with power dispersed institutional settings and left-leaning governments; the opposite is true for 'anti-inflation' performance pattern. The findings on governments' positions confirm the classical parties matter hypothesis which was formulated by Douglas Hibbs more than 30 years ago.

The analysis has also clarified that international aspects have a much smaller impact on economic performance in the context of CEE than many studies might assume. If international variables do have an impact, however, it bears mostly on the 'anti-inflation' economic performance pattern.

Most investigations have analyzed economic performance without taking ideological parameters into account. In this context they could not find an association between polity and politics on the one hand and policies or policy outcomes on the other. This result may have enticed scholars to conclude that institutional settings and the Left/Right dimension do not matter in the context of CEE. However, if we look at economic performance in programmatic terms such as 'anti-unemployment' and 'anti-inflation' performance patterns, both factors matter significantly. There could not be clearer empirical proof that domestic institutional settings and the Left/Right dimension matter in the countries of CEE.

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