Patterns of party system institutionalization have varied widely across regions. In this paper we examine the problem of weak institutionalization in postcommunist democracies along three dimensions: volatility of representation, party extinction, and incumbency disadvantage. Counterintuitively, we see high levels of all three despite sustained economic growth. We consider whether the conventions of economic voting do not apply to postcommunist countries and argue rather that the effects of economic restructuring are critical to understanding electoral outcomes in these cases. Based on a sample of democratic elections from 1990 to 2006 we find that postcommunist countries whose reform strategies minimize increases in inequality have more institutionalized party systems.

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Political parties are an essential component of a stable, well-functioning democracy. They play the critical role in translating the support of constituencies in society into the power necessary to govern. In new democracies it is not only necessary to put in place the institutions of a democratic state, but also a party system which can translate the preferences of society into governments which pursue responsive policies. Failure to do so threatens the effectiveness, consolidation or even the survival of democracy.

The punishment of unresponsive and incompetent politicians by voters is crucial to keeping elites accountable to citizens and preserving state structures as effective tools of policy implementation rather than sources of patronage. Highly volatile polities in which parties disintegrate and politicians are unable to pursue effective courses of action can promote crises that threaten democracy. One exemplar of this is Weimar Germany where disintegration of established parties and high levels of volatility created cabinet instability and large anti-system parties of the right and left, which polarized, deadlocked, and destroyed democracy. Similar patterns of party-system chaos have played a role in the rise of populism and authoritarian presidentialism in Latin America.

Communist political systems exercised a stringent monopoly over political and social organization. This is a difficult legacy that complicates the task of establishing effective party systems. Others have already pointed to the weakness of party system institutionalization by noting substantially higher levels of party volatility in the region. We build on this literature by exploring other aspects of weak institutionalization including the periodic extinction of parliamentary parties, and an abysmal record of

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reelection for incumbent governments. This is in marked contrast to the OECD where sustained economic growth has promoted the reelection of incumbents and party system stability.6

The effects of positive economic performance are not confined to the OECD. Using a global sample, Mainwaring and Zoco show that economic growth decreases volatility.7 Both Roberts and Wibbels and Tavits present similar findings on Latin America and postcommunist Europe.8 Yet regional work suggests that the mechanisms we see in developed countries are not reproduced in other regions. The substantive effect Tavits finds is quite modest. Pacek and Radcliff show that politicians in developing countries are punished by recessions but weakly rewarded by economic growth.9 And Molina finds that less-developed countries are more vulnerable to government turnover due to lower satisfaction with the economy.10

To explore the causes of weak party system institutionalization in the postcommunist context, we created a dataset of all democratic elections in postcommunist Europe between 1990 and 2006. We move beyond the focus on explaining volatility, and adopt a more expansive notion of institutionalization that also includes party extinction and the fate of incumbents. We argue that the dual nature of postcommunist transformation complicates the institutionalization of the party system. The simultaneous construction of liberal democracy and a market economy puts redistributive pressure on the party system that blunts the impact of economic growth. Simply looking at economic performance is insufficient to understand developments in this region. The redistribution of resources though reform also affects satisfaction with political parties. We find that the extent of redistribution strongly predicts the weakness of party institutionalization in our sample.

**Party System Institutionalization**

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7 Mainwaring and Zoco, pp. 164-5.


Institutionalization is the “the process by which organizations and procedures acquire value and stability.” Mainwaring and Scully specify four dimensions of party system institutionalization: 1) Party systems need to exhibit regularity in terms of rules and party competition. 2) Parties must have stable social constituencies. 3) Major political actors must accord legitimacy to the system and competing parties. They must be prepared to accept electoral outcomes. 4) Parties must be more than vehicles for leaders to make direct appeals to voters. Citizens must value them for their programmatic aims.

We explore the issue of party system institutionalization in postcommunist democracies across three dimensions – party volatility, party extinction, and incumbency disadvantage. Each of these dimensions captures a different mix of the characteristics that Mainwaring and Scully specify as essential to institutionalization. We now turn to each.

Volatility

The literature on party system institutionalization has been dominated by studies on volatility. Most use the Pedersen index, a measure of the percentage of the votes or seats that moves from party to party. Lower levels of volatility indicate that party competition has become regularized. In the period directly after a democratic transition, high volatility in party systems should be expected. There will be a flurry of new political and organizational activity, as well as the resurrection of old political parties. Elections lead to the disappearance of unsuccessful contenders and the institutionalization of a stable system in which parties represent constituencies and their interests.

Lipset and Rokkan noted that once modern industrial and social cleavages emerged in Western Europe at the turn of the previous century, stable systems of representation followed. This expectation was confirmed by Bartolini and Mair who showed the stabilization of volatility in thirteen Western Euro-

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pean countries from 1885-1985. And while there is debate over whether this stability continues, there have not been the profound swings that we see in foundational periods or other regions.

Other regions of the world do not exhibit the same sort of stability. Both Mainwaring and Scully and Roberts and Wibbels report party volatility scores well above the European mean for most Latin American countries in the 1980s and 1990s. High levels have also been observed in East Asia.

Bielasiak presents a comparative analysis of volatility across democratizing regions (postwar Western Europe, Southern Europe in the 1970s, Latin America in the 1980s, and the postcommunist countries). The volatility in the democratizing countries of postwar Western Europe was comparatively modest at 11.4. The rates in Southern Europe and Latin America are higher -- 16.3 and 28.1 respectively. From this comparative perspective, East Central Europe (20.5) and the Balkans (20.3) seem to have an intermediate level of volatility compared to the record rates he shows for the Baltic States (31.4) and the European successor states to the USSR (41.9). Thus from a historical perspective, party system volatility in the postcommunist countries marks the region as problematic with regard to party system institutionalization.

Party Extinction

The idea that “A system in which major parties appear and disappear or become minor parties is not well-institutionalized” has been noted before. It has not, however, led to an extensive literature. Party extinction is evidence of both irregular patterns of party competition, but also that a party did not effectively establish or could not hold onto a core constituency. In established party systems, party extinction is a relatively rare event that occurs only when there are realignments.

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17 Mainwaring and Scully, p. 8-9, and Roberts and Wibbels, p. 576.
With democratization it should take time for parties and constituencies to establish stable relationships. In the short run one would expect different parties to compete for the support of constituencies and that their effectiveness in representing their interests would determine just how loyal voters remain.\textsuperscript{21} In the early stages of democracy one would expect that some parties would fail to attract or hold on to voters and would eventually disappear. This early post-transition stage can often include a “shaking out” of the party system, but after an initial wave of extinction, stable patterns of representation and competition should emerge.

Given the initial conditions in postcommunist democracies a harsh shaking out of the party system was expected. For strategic reasons opposition political forces had banded together in order to break the ruling party’s hold on power in founding elections.\textsuperscript{22} Once the old regime was defeated, both oppositional political forces and regime successor parties split into competing formations. There was simply not enough room for all contenders and subsequently many countries experienced a wave of party extinctions.

Despite this there has been the continued disappearance of parties in some countries. In the election of 2001 in Poland, the fourth following its founding elections in 1989, two parties that controlled fifty-eight percent of the Sejm four years earlier disappeared. And this was not the first time this occurred in Poland; the election of 1993 also produced a change of this magnitude. There were also two rounds of party extinction in Latvia where parties representing fifty (1998) and forty-three (2002) percent of the previous parliament failed to attain any representation. There were similar events in Moldova and Slovakia as well. And for the most part the parties that perish rarely come back to life, even if politicians move to new parties.

Incumbency Disadvantage?

There is a huge literature on the advantages that incumbency conveys to candidates, particularly in the United States.\textsuperscript{23} And while these advantages do not seem as large in established European democracies, there is evidence of it in a number of systems.\textsuperscript{24} In Latin America, incumbents, both presidential and legislative, seem more prone to defeat.\textsuperscript{25} In Latin America and the Caribbean, Molina showed that less than 32 percent of ruling parties were reelected in the period from 1945-1995, whereas in Europe, Saalfeld found that 48 percent of governments were reelected between 1945-1999.\textsuperscript{26} In the 42 postcommunist elections from 1991 to 2006 in our sample there are only seven cases (16 percent) where the incumbent prime minister or his/her party was reelected to head the government.

If incumbency becomes disadvantageous, this is further evidence of irregular patterns of party competition. This is particularly problematic if the economy is growing as this should help incumbents establish and reinforce links with constituencies. If it does not, its absence, like party extinction, is evidence of the failure of parties to establish roots in society. Finally, if voters abandon parties when the economy is improving this could be construed as a lack of trust in parties and the party system, meaning that the legitimacy of the party system is also weak.

The level of punishment meted out to incumbents in the postcommunist context seems quite harsh. Incumbent parties not only face the prospect of losing power, but of being abandoned by the electorate altogether. In our 42 observations, parties in ruling coalitions failed to win seats in the subsequent election twelve times.\textsuperscript{27}


\textsuperscript{27} In Poland in 2001, both parties in the former ruling coalition, the Solidarity Electoral Alliance and the Freedom Union, were eliminated from parliament and in Moldova in 1998 the ruling Democratic Agrarian Party lost.
In line with the larger literature on economic voting, the postcommunist literature explains voting behavior as a product of whether voters see themselves as economic winners or losers. A number of studies, both on the cross- and individual levels, have found that poor economic performance in postcommunist countries leads to the punishment of incumbents. Others have found that economic effects are conditioned by factors such as party prominence in coalition governments and the positioning of parties on economic reform.

The literature on economic voting was developed in the context of the OECD countries, where rich data both on the national and individual levels have been available for a much longer time. Given that this literature studies the period since 1945, an era of robust growth, the connection between economic performance and incumbent success is not unexpected. In the postcommunist context, one might assume that incumbency disadvantage is a function of the poor economic performance. But if one looks at Figure 1 below, this is clearly not the case with respect to growth.

Figure 1 plots annual economic performance against the percentage of seats won or lost by the incumbent government for all observations in our dataset. The most striking thing about this figure is the concentration of observations in the lower right-hand quadrant (which combines economic growth and loss of seats by the incumbent government). Also striking is the fact that there are only a small number of observations where there is economic contraction (n=4) and only a few cases where the percentage of seats controlled by the incumbent government increased or stayed the same. We thus observe something

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its 53.8 percent of parliament completely. There are also cases where coalition partners were eliminated from parliament including the Civic Democratic Alliance in the Czech Republic in 1998, the Hungarian Democratic Forum in 2002, and Party of the Democratic Left in Slovakia in 2002.


unexpected – substantial losses of seats by incumbent governments in a growth environment. While Nannestad and Paldam have argued that there are inevitable costs of ruling that may depress the vote for incumbent governments, they do not predict anything of this magnitude in an environment of economic growth.\textsuperscript{30} Does this startling difference mean that economic voting does not work in the postcommunist context or do we need to reexamine how we understand economic performance in this set of cases?

**Postcommunist Exceptionalism?**

How different then is party institutionalization in the postcommunist context? The general principle which guided Gunther in his explanation for the higher levels of volatility in democratizing countries in Southern Europe is quite useful.\textsuperscript{31} Specifically, attention must be paid to the unique properties of different historical contexts because they influence how party systems are institutionalized. Of particular relevance in this regard is the more radical economic transformation experienced by postcommunist countries. Our task is to understand how this process of economic and social change has affected party system institutionalization. The economic travail that both precipitated and accompanied the end of communist systems put economic stabilization and reform at the top of the agenda. And in postcommunist states, unlike in any other region, this necessitated the replacement of malfunctioning planned economies with market systems.

But if post-transitional recessions were relatively short and most countries experienced sustained economic growth, why has this not produced stability in postcommunist party systems? If the countries in question were experiencing sustained recession, one could understand high levels of volatility, party extinction, and incumbency failure. Does their persistence mean that postcommunist politics is some odd netherworld in which ideas about economic voting do not hold? Can growth actually hurt incumbent politicians and destabilize party systems? Though such speculation is tempting, we do not think this is the case. Rather the complexity of the economic situation and the impact it has on voters is different than


what has been observed in more established democracies. If one looks at the OECD countries in the postwar era, there was extensive growth and its benefits were distributed widely across the division of labor. In this context growth meant improvements in living conditions for nearly everyone. In postcommunist countries there has been growth but it has not been allocated across a stable system of distribution.

This is why the nature of economic reform in the postcommunist countries is especially important for understanding the problem of party system institutionalization. Economic reform was not just a function of adopting a package of measures at the behest of the World Bank and IMF, but a fundamental transformation of the central economic mechanisms of these societies. It entailed the switch from bureaucracy to market as the primary allocation mechanism of goods and services and from state control of property to private and mixed forms of ownership. We think that transformative economic change can undermine the effect of growth in ways not imagined in more institutionally stable economies. Thus, it is our contention that despite growth, the pattern in which the economy is being remade can also preoccupy the electorate and this means that while postcommunist voters are economic voters, we need to examine this dimension to understand voter dissatisfaction.

Whether economic reform has been more successful as in the Visegrad countries or the Baltic States, or relatively less successful as in the Balkans or the European successor states to the USSR, all countries have experienced a fundamental redistribution of wealth and income. This is unlike the inequality experienced by other democratizing countries, because its onset did not precede the transition to democracy. In Jasiewicz’s terminology, both those countries that opted for “shock therapy” and those who opted for “shock without therapy” have incurred substantial social costs. What explains different levels of inequality is the nature of reform. This includes the successful adoption of welfare-statist or liberal models, as well as as more political forms of crony capitalism. All three have led to increased inequality, though welfare statist versions have produced less than the other two.

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Inequality matters more in postcommunist democratization because it is not a holdover of authoritarianism, but is inexorably linked to the advent of democracy. These are countries where levels of income inequality and basic needs satisfaction have been high. On the basis of the available data (25 countries), the mean Gini coefficient for income inequality for postcommunist states in 1989 was 24, equivalent to the level of Sweden in the early 1970s.\textsuperscript{34} For food supply in the early 1990s (27 countries) the mean figure, 2880 kilocalories per person per day, was higher than the world mean by about 150 kilocalories and well above the subsistence level of 2400 estimated by the United Nations.\textsuperscript{35}

As both Przeworski and Weyland have noted, democratization following economic crises creates widespread popular expectations for an end to the downward spiral in living standards.\textsuperscript{36} However, continued support for reform is not only predicated on reversing the economic slide, but in how the benefits of renewed growth are distributed across society. In an economy where the system of distribution is not in flux and different economic constituencies receive relatively fixed shares of national income, growth tends to bring incremental (though not equivalent) improvements in well-being across society. However, when the economy is undergoing a massive restructuring and growth is sectorally concentrated, it creates winners and losers despite substantial aggregate growth. Growth then generates increased levels of inequality as certain parts of the population experience radical improvement in their standard of living whereas others experience stagnation and even downward social mobility. Among those parts of the population who see themselves as “losers” of the process (or who sympathize with them), the results of reform can be lead to disenchantment with the government, political parties, and even democracy and this will be observable in voting behavior.

\textsuperscript{34} Calculated from Frederick Solt, "The Standardized World Income Inequality Database", IQSS Dataverse Network, Harvard University, \url{http://dvn.iq.harvard.edu/dvn/dv/solt/faces/study/StudyPage.xhtml?studyId=36908&rvn=5} (accessed May 19, 2009).


Our assumptions about voting behavior are no different than that of other theories of economic voting, except that for postcommunist voters we argue that the redistributive aspects of economic reform are another dimension of performance that can contribute to citizen dissatisfaction. We do not think it matters particularly if we assume that postcommunist citizens vote sociotropically or by their own pocketbook, or whether they vote retrospectively or prospectively, or whether they compare themselves to others in absolute or relative terms. Our theory only demands that you believe that in a growing economy people will be more satisfied when inequality remains stable compared to when it is growing. The available microlevel data supports this.

Using data from seventeen postcommunist countries from 1990-2004, we compiled the mean score for each country with regard to life satisfaction.\(^\text{37}\) We correlated this with the mean Gini coefficient in our sample for each country and found an inverse correlation of 0.68 significant at .01 level. We performed a similar test with the results of the question on confidence in political parties and also found an inverse correlation between inequality and confidence in the party system of 0.53, significant at the .05 level.

So to sum up our theory -- in the postcommunist context differential levels of inequality capture the extent to which citizens are exposed to the redistributive effects of reform. In those countries with lower levels of inequality we expect to find fewer voters who feel like losers of the economic transition process and fewer voters who have a negative assessment of the national economy based on the social impact of economic reform. As inequality grows we expect voters to more easily abandon parties and be more likely to punish incumbents. Hence our hypothesis is: *Higher levels of inequality lead to the weaker institutionalization of parties in postcommunist systems.* We expect to see that this matters in all three dimensions in which we gauge party system institutionalization – volatility, party extinction, and incumbency disadvantage. We now turn to the research design.

**Research Design**

Sample

Our unit of analysis is the country-election cycle. This is because we are interested in tracking change from election to election. Thus our first observation for each country commences with its second democratic election. For example, for Bulgaria, the first observation to appear in our dataset is in 1991, but it is based on a comparison of the results from the first free election in 1990 to that of the second free election in 1991. We excluded elections held under authoritarianism, even when it was relatively soft, because outcomes would be biased towards incumbents, reducing electoral change.

To assure that our sample only included competitive elections we consulted three sources. We first looked at Freedom House, which compiles indices for political rights and civil liberties, which both run from one to seven.\(^{38}\) We included elections in countries where the average of the two was 2.5 or less (considered “free”) and excluded those where the average is above 5.5 (“unfree”). In the case of countries falling between these two (“partially free”), inclusion remained an open question and we consulted the country’s Polity score.\(^ {39}\) Polity is a twenty-one point scale that runs from -10 to 10 designed to capture the degree of autocracy/democracy. Countries that did not meet standard cutoff point for democracy (a score of six or above) were also eliminated from consideration. Countries with scores of eight, nine or ten were included, while those with scores of six or seven (or a missing value) were subjected to one final check.

We were concerned that countries that only just passed the minimums on both scales might not be meeting criteria for competitive elections. For them we consulted the election monitoring reports of the Organization for Security and Cooperation in Europe.\(^ {40}\) In cases where the monitors judged that election

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procedures substantially met the standards of the OSCE, we included it in our sample.\footnote{In cases where no reports were generated after earlier evidence of compliance with OSCE standards, we treated this as a positive assessment.} We end our observations in 2006, the last year for which Gini data is available.

Dependent Variables

*Volatility* is commonly measured by the Pedersen index. The index is calculated by halving the sum of the absolute values of all differences in the share that parties capture from election to election.\footnote{Mogens Pedersen, “On Measuring Party System Change,” *Comparative Political Studies* 12 (1980), pp. 387-403.} It runs from 0 to 100. A score of zero means that no party lost or gained seats in the legislature. A score of one-hundred means that existing parties did not win a single seat. Some authors measure volatility in terms of seats held by parties in parliament, and others in terms of the popular vote. As our primary concern is the institutionalization of the party system rather than explaining voting behavior, we use seat volatility. We also ran the models presented below using vote volatility and our results were unchanged.

The mean volatility score in our dataset is 37.0. The maximum score is 74.8 in Lithuania in 2000, and the minimum is 6.2 in Hungary in 2006.

*Party extinction* gauges the disappearance of parties in the legislature from one election to the next. We use the percentage share of seats lost by all parties which after having a seat or more in the legislature do not attain representation at the next election. The mean party extinction score in our dataset is 14.3 and it ranges from 0 (a number of cases) to 58 (Poland in 2001).

*Incumbency disadvantage* measures how the sitting government fares from election to election. We compare the percentage of seats controlled by parties in the government at the time of its election to their collective performance in the subsequent election. Successful incumbents are likely to only see small gains or even small losses when reelected. The mean loss experienced by incumbent governments in our dataset is 24.4. It ranges from a net gain of 5.6 in Slovenia in 1996 to a loss of 63 percent in Lithuania in 2000.
In coding the dependent variables we paid attention to continuity of organization. This required the tracking of the formation of coalitions and the merging of parties. In cases of electoral coalitions, we did not consider their creation or dissolution to be the creation of new parties or the destruction of existing ones. Rather we compared the electoral strengths of the allied party organizations in calculating gains and losses. When parties merged, we did not treat the merged party as a new one, but a consolidation of the strength of its predecessors in calculating change. We treated party dissolution, as distinct from the dissolution of electoral coalitions, as a loss of strength, even when party factions joined existing parties or formed successor parties. We included the dissolution of parties, the entry of new actors, and electoral losses and gains to surviving parties in calculating the dependent variables, but discounted nominal organizational change.

Independent Variables

Our main independent variables measure the economic performance of the incumbent government. The most important independent variable is income inequality. Our data come from the Standardized World Income Inequality Database (SWIID 1.1). Our selection of SWIID is based on its comprehensive compilation and imputation of Gini coefficients for a rich sample of countries. The mean Gini coefficient in our sample is 30.3. The most egalitarian country is Slovakia in 1994 (21.2) and the least is Moldova in 1998 (38.4).

We ran our models with two different specifications of income equality, one using level of inequality and one using change since transition. We initially ran only level models believing that the similar egalitarian starting point of all countries in our dataset meant that level would gauge change. To assure skeptics we also ran models using change in Gini since 1989 (the starting point of the transformative process in the region). For these models, at each observation we subtracted the current level Gini from the level in 1989. We did not measure change in Gini from election to election because in our theoretical conceptualization the changes introduced by the reform process is the relevant frame of reference, not the minor changes that accrue from election to election.

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43 Solt, “Standardized World Income Inequality Database.”
We also include a measure of economic performance, change in gross domestic product per capita, because of the importance this factor in the economic voting literature. We calculated change in GDP per capita from the data available in the TransMONEE dataset. This data comes from the World Bank and is measured in constant 2000 US dollars.  

Control Variables

Previous research suggests that institutional design and ideological polarization have a significant effect on party system institutionalization. On the institutional side we include a measure of mean district magnitude (seats elected per district). Higher district magnitude should reduce the barriers for entry, thus increasing volatility. It should also reduce party extinction and incumbent losses because representation will require lower vote shares. We compiled this data from existing datasets and our own investigations. We logged district magnitude because the difference between winner-take-all systems or first two or three past the post would be starker than marginal differences between districts electing several representatives.

All elections in the sample were conducted with a threshold clause (ranging from three to six percent). We also controlled for these minor differences in threshold. Our expectation was that higher threshold clauses would decrease volatility by increasing the cost of entry for new parties, but that it would increase both incumbent loss and party extinction, because of the necessity of attaining a higher vote share to remain in the legislature. Finally, in the models in which volatility was the dependent variable, we included a dummy variable for a change in the electoral system, because we assumed that any change in the rules would lead to redistribution of seats.

It is difficult to capture ideological polarization with a direct measure especially in the post-communist context. Whitefield has argued that the urban-rural divide is the most salient cleavage in post-

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44TransMONEE, 2008 Database, (Florence: UNICEF Innocenti Research Centre, 2008). The literature on volatility sometimes uses unemployment rates instead of economic performance. Unemployment data was not available for all our observations, but when we ran our tests using the available observations, this did not affect our results for inequality.

communist countries, arguing that it is more important than social class.\textsuperscript{46} To control for this we included the absolute difference between the percentage of urban and rural population. The incorporation of income inequality as an independent variable also helps to control for another socioeconomic basis for polarization. We also capture the impact of ethnic cleavages by the inclusion of a measure of ethnic fractionalization.\textsuperscript{47} We expect ethnic fractionalization to have a stabilizing effect on party systems because of the loyalty of minority voters to their ethnic parties.\textsuperscript{48}

We also included a measure of the duration of the democratic regime to see if volatility, party extinction, and incumbency disadvantage are increasing or decreasing over time, as well as a second-order polynomial to see if party systems are stabilizing.\textsuperscript{49} We also controlled for the possibility that levels of development explain differences in party system institutionalization by the inclusion of GDP per capita.\textsuperscript{50} Additionally, we included a variable for inflation to control for another dimension of economic performance.\textsuperscript{51} Finally we did not include several controls that appear in other studies --coalition governments, historical time period, and party age – because there is little or no variation in these factors in our sample.

Method of Analysis

Our dataset is pooled time-series, cross-sectional and thus subject to heteroskedasticity and serial correlation. However, we do not expect temporal dependence as the number of time periods we observe (one to five election cycles per country) is smaller than the number of countries. Beck and Katz suggest

\begin{itemize}
\item \textsuperscript{49} Tavits, p. 290.
\item \textsuperscript{50} TransMONEE, 2008 Database.
\end{itemize}
that given corrected-error components for heteroskedasticity, OLS provides a reliable estimator.\textsuperscript{52} Thus we used OLS with Huber/White sandwich robust standard errors.

\textbf{Results}

We proceed directly to our multivariate tests. In Table 1 below, each pair of columns presents the results for one dependent variable, with Gini \textit{level} and \textit{change} in Gini since the onset of reform as the main independent variables. Models one and two investigate the determinants of volatility. Our main independent variable, income inequality, is highly significant in both specifications. The positive direction means that both higher levels of income inequality and growth in income equality lead to higher volatility. The size of the coefficient in both models means an increase of around 1.7 points in volatility for each upward increment of one point in Gini. In terms of the other variables we highlight in our analysis we show one null finding and one peculiar finding. With the inclusion of income inequality, annual change in GDP per capita in model one is significant and positive. This means that when other potential causal factors are controlled, an increase in GDP per capita leads to an increase in volatility. This is the only model in the six which yields this peculiar finding. In the volatility models, the time variable and its quadratic term do not attain significance; thus we do not confirm Tavits’ finding that volatility decreases over time.\textsuperscript{53}

\begin{footnotesize}[\textit{Table 1}]

In models three and four the dependent variable is party extinction. As in the previous models income inequality is statistically significant. Higher Gini scores are linked to higher rates of party extinction. In both the level and change models the impact of a one point increase in the Gini coefficient leads to an increase of better than one and one-half percent in party extinction. Change in GDP per capita is significant in model four. It behaves as expected; higher levels of growth decrease party extinction. Here the time variable, years since democratization, is positive and significant, in the level model and approaches conventional levels of significance in the change model. The quadratic terms in both models are

\textsuperscript{52} Nathaniel Beck and Jonathan N. Katz, “What to Do (and Not to Do) with Time-Series Cross-Section Data in Comparative Politics,” \textit{American Political Science Review} 89 (1995), pp. 634-47.

\textsuperscript{53} Tavits, p. 293.
significant and negative. The overall picture from both models is that the rate of party extinction, as expected, diminishes with time. This is precisely what we see in Figure 2 below which plots the joint effect of the linear and quadratic time terms on extinction (based on model 3, holding all other independent variables constant at their mean). The rate of extinction begins to diminish eight years after the onset of democracy where the function turns downward.\textsuperscript{54}

[Figure 2]

In models five and six the dependent variable is incumbency disadvantage, thus coefficients are signed negatively when the independent variable increases (the loss of seats to the previous ruling party or parties). In these models both higher inequality and change in inequality once again prove to be a detriment to party system institutionalization, increasing incumbent government losses. In both models, the impact of an increase of one in the Gini score leads to a loss of almost 1.8 percent of the seats in the legislature held by the previous government. In both of these models change in GDP per capita again does not attain significance. Overall, our findings for growth are disappointing, with the expectations of the literature only confirmed in model 4. Finally with the time variables in these models, we see results similar to those in the party extinction models. This is evidence that incumbency disadvantage also is diminishing over time.

In terms of our control variables, the most consistent results are returned by other economic variables, inflation and level of development. We included inflation as an additional control for governmental economic performance. It is significant in the change and level models for both volatility and incumbency disadvantage. Curiously, in contravention of expectations it is signed negatively in the former and positively in the latter, meaning that higher inflation promotes party system institutionalization. However, the size of the coefficients indicates a small substantive effect because the inflation term is logged.

The variable for GDP per capita is significant in the volatility and incumbency disadvantage models. Countries with higher levels of development experience less volatility and favor incumbents

\textsuperscript{54} We calculated the value ($-\beta_1/2\beta_2=0$) when the slope of this function becomes zero.
more than those countries with lower GDP per capita. These regressions show that level of development and distributional issues both have important and distinct impacts on party system institutionalization.

In terms of the variables capturing potential social divisions, there is little consistent impact. We also do not see consistent results for the controls that capture institutional design. Both electoral thresholds and district magnitude are significant in the party extinction models. The threshold variable performs as expected with higher thresholds promoting party extinction.

District magnitude does not perform as expected. The positive coefficient means higher district magnitudes (thus greater proportionality) promotes party extinction. This is a seemingly odd finding given that we would expect just the opposite. However, in all of these cases electoral rules were chosen in the near past. In countries in which strong parties dominated, they opted for more restrictive systems (low district magnitude) and in countries with highly fragmented party landscapes only consensus on an electoral system with high proportionality (high district magnitude) was possible. We believe the results we observe reflect self-selection -- countries that opted for low district magnitude already had stronger, more stable parties than those which chose high district magnitude and thus exhibit less party extinction.

**Intraregional Comparisons**

Before concluding, we turn to a discussion of patterns of party system institutionalization and inequality in the region. Whereas, much of the literature groups countries together on geography and history (the Baltics, the Balkans, Central Europe, the former Soviet Union) we do not find the same kind of coherence. We see differences within these intraregional groupings in terms of party system institutionalization and inequality.

We explore this pattern of change by looking at bivariate distributions of the mean level of income inequality and mean values for all three of our dependent variables across all elections for individual countries in our dataset in Figure 3. If one looks at the dispersion of the three dependent variables across Gini coefficients, it strongly suggests that income inequality is highly consequential for all three dimensions of party system institutionalization. The mean Gini score across all electoral cycles for individual nations runs from 24 for the Slovak Republic to 38 for Moldova. The most equal countries are
Slovakia, Slovenia, and the Czech Republic. Historically, such levels are rare, seen only in the Soviet bloc and in strong Western European welfare states. The score that we see in Moldova is not exceedingly high, rather like that of strongly liberal-market countries (more or less where the United States was during the 2000s). Higher scores are routinely observable in many parts of the developing world, notably Africa and Latin America.\footnote{Stephan Haggard and Robert Kaufman, \textit{Development, Democracy, and Welfare States}, (Princeton: Princeton University Press, 2008).}

*Figure 3*

If we look at clusters of Gini scores and what these mean for our dependent variables the pattern supports our theory about income inequality’s corrosive effect on party system institutionalization. Moldova with the Gini score closest to forty has the least institutionalized party system. Countries in the mid-thirties all seem to have relatively strong incumbency disadvantage and volatility. Poland, Lithuania, and Macedonia, seem to be on the high end in this group of states, whereas Latvia and Estonia show somewhat more modest effects. In the party extinction dimension Estonia, Poland and Latvia seem most affected, whereas Lithuania and Macedonia show a more modest impact.

There is a cluster of states around a Gini score of thirty, Croatia, Bulgaria, Hungary, and Romania, which show moderate and similar levels of volatility, party extinction, and incumbency disadvantage. Finally two of the three countries with Gini coefficients below twenty-five, the Czech Republic, and Slovenia, have more institutionalized party systems with low levels of incumbency disadvantage, volatility, and extinction. Slovakia is an outlier, experiencing moderate levels of incumbency disadvantage and volatility similar to the group of states with Gini scores around thirty, and high levels of party extinction despite a egalitarian pattern of distribution.

**Conclusions**

We began this paper with the rather baffling observation, that despite robust growth, party institutionalization in postcommunist democracies seemed to be weak in comparison to other regions. Volatility rates were higher than in Latin America. Furthermore, weak party institutionalization in the region also
included high rates of party extinction, with secondary waves coming as much as a full decade after transition. And, across the region incumbent governments have continued to be turned out of office with remarkable regularity in contravention of well-established theories of economic voting and the advantages of incumbency.

Our explanation for these differences is the nature of the postcommunist economic environment. A system based on state property and the bureaucratic distribution of goods and services was replaced by property pluralism and the market. The redistributive effect of these changes meant that substantial groups of citizens could feel like they personally and/or the country as a whole was doing poorly economically despite economic growth. Citizens in postcommunist democracies were still economic voters, but the factors that shaped their view of the economy went beyond the conventional indicators used in other studies. Shockingly we showed that redistribution neutralized the positive effect that we expected from growth.

Our models showed that increased income inequality consistently correlated with higher rates of party volatility, party extinction, and electoral losses for incumbent governments. Postcommunist countries that reformed their economies with greater levels of inequality have inadvertently disrupted the institutionalization of their party systems. And those that reformed their economies without substantially increasing inequality have more stable party systems.

The expectations of the literature on democratization are that after an early, more chaotic phase, we will see a routinization of democracy and the stabilization of the political institutions. We did not consistently find this. The high levels of incumbency disadvantage and party extinction are discouraging, but at least they show signs of diminishing. We did see the same encouraging signs for volatility. All this indicates that the process of establishing stable postcommunist party systems is, at best, more difficult and protracted.

In the title of the paper we explicitly raised the issue of whether postcommunist democracies resemble their Western Europe neighbors, with stable party systems, or other new democracies, like in Latin America, which have had a harder time establishing stability. Despite high aggregate levels of volatili-
ty, incumbency disadvantage and party extinction, we see two patterns emerging. A smaller number of countries that have reformed their economies while preserving a semblance of egalitarianism have done better in terms of institutionalization. Those with higher levels of inequality exhibit less institutionalized party systems. The prospect of continued growth and a stabilization of the system of distribution holds out the potential for an institutionalization of these party systems as more protracted process.

Why then is postcommunist party institutionalization more like Latin American pattern? After all, inequality levels are substantially higher in Latin America. There are three reasons for this. First, though the economic adjustment that accompanied democratization in Latin America brought hardship, the nature of reform was not as radical as in the postcommunist region. Second, Latin America’s higher levels of economic inequality were there under the antecedent dictatorships. The changes in equality in the postcommunist democracies broke sharply with historical patterns. Third, many Latin American countries had historical parties which survived the period of dictatorship underground, and reemerged with democratization. Latin Americans had strong historical associations with these parties, unlike in the postcommunist region where the duration of dictatorship was longer.

While our understanding of what is different about postcommunist Europe may be construed as confining conditions, they point to novel ways of understanding party system institutionalization in new democracies. When well-established theories do not fit a new set of observations, it is an opportunity to see if modifications improve their ability to explain a broader range of outcomes. Our work points to how the absence of legacy parties from earlier periods of competitive politics and the redistributive effects of economic reform made the logic of postcommunist party institutionalization different. Both of these factors vary across new democracies and thus point to the investigation of whether these variables have the same impact in a global sample of new democracies as a next logical step.

Figure 1: Economic Performance and Loss of Seats by Incumbent Government (1991-2006)

N = 42 (All democratic elections from 1991-2006).
Figure 2: The Diminution of Party Extinction over Time
Figure 3. Income Inequality and Party System Institutionalization

Volatility

Party Extinction

Incumbency Disadvantage
Table 1: Party Institutionalization and Its Determinants

<table>
<thead>
<tr>
<th></th>
<th>Volatility</th>
<th>Party Extinction</th>
<th>Incumbency Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level</strong></td>
<td><strong>Change</strong></td>
<td><strong>Level</strong></td>
<td><strong>Change</strong></td>
</tr>
<tr>
<td><strong>Model 1</strong></td>
<td><strong>Model 2</strong></td>
<td><strong>Model 3</strong></td>
<td><strong>Model 4</strong></td>
</tr>
<tr>
<td>Inequality</td>
<td>1.671 ***</td>
<td>1.789 ***</td>
<td>1.645 ***</td>
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<tr>
<td></td>
<td>(0.564)</td>
<td>(0.575)</td>
<td>(0.579)</td>
</tr>
<tr>
<td>Time</td>
<td>2.291</td>
<td>0.642</td>
<td>3.837 *</td>
</tr>
<tr>
<td></td>
<td>(2.754)</td>
<td>(2.494)</td>
<td>(2.232)</td>
</tr>
<tr>
<td>(Time)²</td>
<td>-0.209</td>
<td>-0.143</td>
<td>-0.231 **</td>
</tr>
<tr>
<td></td>
<td>(0.139)</td>
<td>(0.139)</td>
<td>(0.117)</td>
</tr>
<tr>
<td>Annual Change in GDP</td>
<td>0.885 *</td>
<td>0.625</td>
<td>-0.708</td>
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<tr>
<td></td>
<td>(0.649)</td>
<td>(0.699)</td>
<td>(0.571)</td>
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<tr>
<td>GDP</td>
<td>-0.002 **</td>
<td>-0.003 **</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
</tr>
<tr>
<td>Inflation (Logged)</td>
<td>-6.747 ***</td>
<td>-9.559 ***</td>
<td>0.409</td>
</tr>
<tr>
<td></td>
<td>(2.239)</td>
<td>(1.879)</td>
<td>(2.361)</td>
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<tr>
<td>Urban/Rural Division</td>
<td>0.121</td>
<td>0.061</td>
<td>0.031</td>
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<tr>
<td></td>
<td>(0.208)</td>
<td>(0.285)</td>
<td>(0.160)</td>
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<tr>
<td>Electoral Threshold</td>
<td>-8.025 **</td>
<td>-4.478</td>
<td>4.636 *</td>
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<tr>
<td></td>
<td>(3.296)</td>
<td>(3.970)</td>
<td>(2.876)</td>
</tr>
<tr>
<td>District Magnitude (Logged)</td>
<td>3.938</td>
<td>-1.834</td>
<td>19.438 ***</td>
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<tr>
<td></td>
<td>(4.084)</td>
<td>(4.673)</td>
<td>(4.274)</td>
</tr>
<tr>
<td>Change in Electoral System</td>
<td>7.689</td>
<td>7.600</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(7.945)</td>
<td>(6.821)</td>
<td>-</td>
</tr>
<tr>
<td>Constant</td>
<td>40.295 *</td>
<td>84.229 ***</td>
<td>-87.314 ***</td>
</tr>
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</table>

N: 42
R²: 0.552 0.546 0.387 0.363 0.605 0.589

Note: Coefficients are unstandardized regression coefficients with robust standard errors below in parentheses. Results are one-tailed and *p<.1, **p<.05, ***p<.01.