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FRACTIONALIZATION, CRISES, AND REFORM: INQUIRIES INTO THE DETERMINANTS OF POLITICAL COLLABORATION

A DISSERTATION SUBMITTED IN FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE: DOCTOR OF PHILOSOPHY (PH.D.)

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ABSTRACT

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This dissertation contains five studies for the award of a Ph.D. by monograph. The thesis addresses one of the underlying questions in the study of the political economy of reform: what institutional and socio-economic factors determine the extent to which political actors can collaborate on reform? The underlying argument this thesis makes relates to the operationalization of empirical models to address this question. The thesis will explain why and how reform can be understood and modeled as a multilayered phenomenon in empirical analysis, that is, as a function of its distinct characteristics that structure the way political actors engage in political transactions.

After motivating the research question, chapter 2 reviews the literature on the political economy of reform and situates the contributions in this thesis. The following chapters, chapters 3, 4 and 5, are written and conceived as individual journal articles that, at the time of writing, are either already published (chapter 3), revised and resubmitted (chapter 4), or under review (chapter 5) in peer-reviewed journals. Chapter 3 focuses on one dominant theory in the literature and discusses the methodological shortcomings in empirical analyses of the so-called crisis hypothesis, which posits that economic crises induce reform. The fourth chapter introduces and analyzes a novel data set on legislation in Lebanon based on agenda-setting theory, which the fifth chapter leverages for an empirical analysis of the determinants of political collaboration in Lebanon. To address the gaps in the literature identified before, the study develops a theory to interpret political collaboration and leverages a mixed-methods research design that draws on both a quantitative analysis of legislation data as well as 32 expert interviews with Lebanese political actors. Chapter 6 discusses outstanding conceptual issues of research on the crisis hypothesis based on the analysis in chapter 3. Chapter 7 concludes with comments on policy relevance of the findings of this thesis and possible vistas for future research.

1. INTRODUCTION

In November 2015, the Lebanese parliament approved law no. 44, a controversial legislation aimed at "fighting money laundering and terrorist financing".[1] The purpose of the law was to ensure the stability of the financial sector by complying with United States regulations and sanctions aimed at curtailing economic and financial activities of organizations related to terrorist groups as well as drug and weapons smuggling.[2] The law was controversial as the session in which it was enacted was unconstitutional and entailed potential distributional consequences on politically powerful groups financed by rents from related activities (Berthier, 2017).

At the same time and despite a period of economic and fiscal hardship that set macroeconomic indicators on an unsustainable path (Le Borgne, Jacobs and Barbour, 2015), the same political actors, operating in the same configuration of political power, failed to approve other significant legislation that aimed to ensure financial stability. Among others, parliament failed to approve a budget law due to disagreements over the distribution of costs of reforms as well as concerns over accountability.[3]

Moreover, both of these episodes of political collaboration – one of reform and the other of gridlock – took place in a period of "political paralysis" (Nader, 2014). Starting from 2011, the political implications of the conflict in neighboring Syria and its impact on Lebanon's economy have caused political instability, which at that point had already led to the delay of parliamentary elections (originally due 2013), the appointment of a president (originally due 2014), and thereby significantly undermined legislative activity (in 2015, only 10 laws could be published that pertained to internal affairs, see chapter 4). Law no. 44 hence passed at a point in time in which collaboration on reform was largely impeded.

While numerous accounts can be cited as to why the one bill passed while the other did not, the conventional wisdom for explaining why certain legislation gets approved while others do not tends to relate to personalized accounts and the fractionalized and sectarian nature of Lebanon's polity (Makdisi and Marktanner, 2009; Leenders, 2012; Salamey, 2014; Salloukh *et al.*, 2015; Hermez, 2017; Karam, 2017). Lebanon's polity is organized in a consociational democracy, which guarantees 18 recognized sectarian communities representation in political and bureaucratic functions of the state (Lijphart, 1992; Makdisi and Marktanner, 2009) and leaves *de facto* power to the leadership of

[1] The text can be accessed on the webpage of the Lebanese Central Bank: http://www.bdl.gov.lb/files/laws/Law44_en[3].pdf [accessed 25/07/1987]
[2] The law mandated the reporting of suspicious transactions, the maintenance of customer identification information, and facilitated the access to banking information by judicial authorities in what otherwise is an environment of strict banking secrecy. On the US strategy to curb money laundering, see for example: https://www.cbsnews.com/news/dea-targets-hezbollahs-money-laundering-ties-to-cartels/
[3] Discussions on a set of other important bills have simply been postponed, such as the proposal for a wage hike of public employees and an electoral law. See interviews, chapter 5.

sectarian communities or oligarchs (Diwan and Haidar, 2019; Mahmalat and Chaitani, 2019). The 2009 parliamentary elections, for example, resulted in the representation of some 22 different parties and factions, of which even the most well-established parties have very limited cohesion on policy positions (LCPS, 2018). Much of this literature maintains that reform gets protracted over the efforts of political actors, in their functions as representatives of sectarian communities, to maintain their relative economic and political prerogatives vis-à-vis each other.

However, differing outcomes of collaboration on reform despite a similar configuration of political power is not only commonplace in Lebanon but also in other developing countries (Williamson and Haggard, 1994; Corrales, 1998; Galasso, 2014). Mostly in line with explanations for Lebanon, theoretical approaches tend to model the delay or adoption of reform with distributional conflict as a function of the degree to which a country is polarized and fractionalized (see Khemani, 2017, for a recent review). As discussed in chapter 2 of this thesis, while this literature offers important insights into the mechanisms by which reform gets adopted or delayed, it gives few insights into why actors encounter a varying degree of difficulty to collaborate on reform depending on the issue they are dealing with. In other words, generalized explanations of the delay of reform fall short of explaining variation in reform activity across policy areas, such as product market reform, trade reform, or tax reform, in the absence of a shift in the underlying configuration of political power.

Explaining this phenomenon is important to identify the structural conditions that make reform more or less likely (Tompson and Price, 2009). In that way, the overarching question this thesis addresses is one of the fundamental questions in the study of the political economy of reform: what institutional and socio-economic factors determine the extent to which political actors can collaborate on reform? The goal of this thesis is to generate both theoretical and methodological approaches into how empirical analysis can generate more detailed insights into the mechanisms by which actors collaborate on reform. The underlying argument this thesis makes relates to the operationalization of empirical models to address this question. The following chapter will show why and how reform can be understood and modeled as a multilayered phenomenon in empirical analysis, that is, as a function of its distinct characteristics that structure the way political actors engage in political transactions.

To arrive at these arguments, I derive the core concepts from political transactions theory (Spiller and Tommasi, 2003; Stein et al., 2006; Scartascini, Stein and Tommasi, 2013). The central concept of these models is *political transactions*, which involve mutual agreements over political concessions that are intertemporal in nature, such as a vote for project X today in exchange for a concession on project Y tomorrow (Spiller and Tommasi, 2003). The central argument of political transactions theory is that the functioning of political institutions impacts upon the capacity of political actors to engage in political transactions and, hence, the quality of policies. Because the concept of political transactions applies to democratic regimes independent from the structure of a polity, we employ it as a theoretical framework in this paper. In what follows, the thesis refers to the exchange of intertemporal political transactions in the process of bargaining over legislation as political collaboration. That way, collaboration can be understood as the succession of political bargains between political actors by which legislation is processed: from the initial necessity assessment to drafting a bill, discussing and voting in respective institutions, and the eventual publication in official journals.

To interpret the observable outcomes of political collaboration, two central terms must be distinguished. The term *legislation* refers to the entirety of legal documents that enter legal force. As legislation can contain political transactions that are of minor political significance some are of subordinated relevance for the study of political collaboration, such as the renaming of buildings or naturalizations (see chapter 4 for a detailed discussion of this point). Therefore, this thesis focuses on *reform* which it defines as 'high-profile' legislation which establishes or amends impersonal rules and significantly changes the regulatory affairs of a country (see chapter 5). By differentiating reform based on policy areas and its institutional origins, empirical models, then, can infer more differentiated conclusions on the mechanisms by which the given socio-economic configuration of a polity impacts political collaboration, and thereby the occurrence of reform.

I refer to fractionalization as the number of politically significant social groups with veto powers in the process of collaboration (Cox and McCubbins, 2001; Tsebelis, 2002). Extant studies on the political economy of reform generally find higher degrees of fractionalization to decrease the likelihood of reform in certain policy areas, such as trade or privatization (Banerjee and Munger, 2004; Brooks and Kurtz, 2007; Bortolotti and Pinotti, 2008; Galasso, 2014), and the 'level' of reform (Tsebelis, 1999; Torenvlied and Haarhuis, 2008). As many of these findings are results of panel-data regression analyses utilizing reform indices, however, some studies provide ambiguous evidence and tend to leave transmission channels that could explain individual reform episodes underdetermined (see chapter 3).

In order to derive a fuller understanding of the phenomenon of political collaboration, the thesis starts with a review of the literature on the political economy of reform (chapter 2). The chapter aims at answering the question of how literature on the political economy of reform has approached empirical and theoretical models to explain the phenomenon of reform, and which research areas remain underexplored? The chapter identifies in more detail gaps in the literature the contributions in this thesis address and how they contribute to extant knowledge.

Thereafter, the thesis critically reviews the literature on a specific phenomenon in the political economy of reform, which is the (alleged) tendency for reform to follow crisis episodes (chapter 3). Starting from the observation that empirical results on this so-called "crisis hypothesis" exhibits a high degree of ambiguity, the chapter aims to answer the research question of how this ambiguity can be explained. The chapter comes to identify a set of methodological and theoretical reasons that induce such ambiguity in interpreting the results of empirical models. I explain why empirical models offer only limited insights into the mechanisms by which crises give rise to political collaboration on reform that would not otherwise be possible. In doing so, the chapter reviews in ore detail what motivates large parts of this study, namely the methodological shortcomings related to the operationalization of reform. As empirical studies tend to utilize aggregate indices to indicate reform, which reflect the relative change in the legislative environment rather than instances of reform, they tend to fail to provide detailed insights about the mechanisms by which actors collaborate. The chapter is published as a journal article in the *Journal of Economic Surveys* and explains how more differentiated approaches to model crises and reform in empirical analyses can contribute to clarify ambiguous results in extant literature (Mahmalat and Curran, 2018).

In an effort to circumvent the identified methodological shortcomings of aggregate reform indices, the thesis goes on to introduce a new data set on primary and secondary legislation based on the case of Lebanon (chapter 4). The chapter asks the question of how legislation data can facilitate a more nuanced analysis of political collaboration. I analyze the data set based on agenda-setting theory to illustrate its content and show how it can be leveraged to answer questions related to political collaboration. The creation of the data set further contributes to the literature on political attention by offering an approach to identify legislation that is of relevance for the study of political collaboration based on expert review.

After having identified gaps in the literature and methodological shortcomings and having established a data set to address these shortcomings, the thesis offers both a theoretical and empirical explanation for political collaboration in Lebanon (chapter 5). The chapter seeks to answer the questions: why does a given degree of fractionalization impede reform in a certain policy area, while reform in others remains possible? The chapter develops a conceptual framework to explain how the characteristics of a reform can structure political collaboration. In a mixed methods approach, the chapter then inquires into the effects of political fractionalization as one of the key determinants of political collaboration. I argue that the properties of a reform project determine the extent to which fractionalization affects political collaboration on reform: the higher the institutional requirements of a reform are, i.e., the number and nature of political actors and institutions involved in accrediting the legislation, and the broader its impact, i.e. the number of groups that are affected, the more can fractionalization impede political collaboration.

The sixth chapter comes back to the relationship between crises and reform. Departing from the methodological issues identified in chapter 3, I discuss in more detail remaining conceptual issues on the research on the relationship between crisis and reform. The research question of this chapter asks why interest-based approaches to conceptualize crises fail to capture the core mechanisms that explain political outcomes. The chapter first explains why epistemological approaches based on ideational power are better suited to explain collaboration in times of crisis than interest-based approaches. Thereafter, it discusses why case study analyses can contribute to our understanding of the mechanisms that link the two concepts.

The final chapter concludes with some remarks for future research in the field.

2. THE POLITICAL ECONOMY OF REFORM – A STRATEGIC LITERATURE REVIEW

The concept of “reform” in economics commonly refers to changes in policies and institutional arrangements “which are aimed at improving an economy’s performance” (Drazen, 2000, p. 615). In these terms, reforms consist of individual or a set of policies which are deemed to perform better than the status quo to achieve economic goals. For Drazen (2000), reform is different from day-to-day policy change in three points, which are key to understand the political economy of reform: first, the number of policy changes that must be made for a reform to be successful, second, the scope or level of the reform, both of the programme and its effects and, third, the uncertainty that is caused by the magnitude of the changes that are being implied (pp. 615). The literature on the political economy of reform then elaborates on a main question: Why are reforms not undertaken when they are found to be necessary for economic and social improvement?

As I will argue in this chapter, the literature to date has tackled this question in three streams, which will be discussed successively (Williamson and Haggard, 1994; Tommasi and Velasco, 1996; Drazen, 2000; Alesina *et al.*, 2003; Ashraf and Galor, 2013; Azulai *et al.*, 2014; Khemani, 2017). These streams represent a set of studies that aim to address the above question from a similar angle. The first stream was instigated and spurred by the debt crises of the 1970s and 1980s in Latin America and Africa and reached its peak in the 1990s (sub-section 2.1). This strand of research focused on macroeconomic stabilization and fiscal adjustment for which political consensus among interest groups is ultimately prescribed by budget and resource constraints as maintaining fiscal excesses and macroeconomic imbalances is simply impossible without risking severe economic crises. The answer this literature offers is that conflict among socio-economic groups causes the delay of reform over efforts to continue rent-seeking activities.

The second stream of literature was motivated by the fall of the Soviet Union and the transition of former Communist countries from state-led to market-led economies (sub-section 2.2). This literature focused on reforms that had a greater focus on ideological change rather than on adjustment of policies to fiscal imbalances. However, the results were driven by powerful evidence of the superior economic outcomes of market-led resource allocation. The underlying question this stream of research tackled was, hence, why conflict of interest persists and societies fail to develop institutional mechanisms that curb the influence of special interests.

The current and third stream of research addresses public sector reforms more broadly, such as the provisioning of public goods or the allocation of resources. For such reforms, however, evidence is less conclusive as to what optimal alternatives to the status quo would be (Rodrik, 1996). For example, anti-corruption laws and institutions of similar design and function appear to have a very different impact across countries (Heeks and Mathisen, 2012).

As I will discuss below, while all streams essentially originate in a rationalist school of thought, they offer different epistemological frameworks to analyze the underlying questions. The first stream analyzes who wins or loses out from reform and how credible commitments to compensate losers between the two could be formulated. The second stream examines the norms and preferences within a society that determine why a society gets stuck with suboptimal policy choices. These choices can persist because of non-cooperative behavior, that is, the rational belief of actors that they should value the self over the public interest, given the anticipated behavior of other actors. The third stream, by contrast, examines the roots of ideological disagreements among actors over economic and political fundamentals, such as the role of a government, resource allocation, or public goods and the social beliefs about the very nature of a problem that has to be tackled. Thus, this literature examines the reasons for differing preferences among social groups for policies and public goods, and why they can resist change even in light of evidence of a better performing policy.

This section reviews the theoretical and empirical evidence of these three complex strands of literature. I show how they are interwoven and can explain more general patterns of political collaboration on reform. The discussion focuses on the third and most recent stream, as the first two are partly discussed in the literature reviews of the chapters covering the body of the thesis, and helps to put into context the phenomena investigated in the thesis. Further, I identify open questions and possible avenues for future research.

2.1. Stream 1: Commitment Problems

In the literature of the first stream, reform commonly refers to “a major fiscal adjustment that significantly reduces a large budget deficit and/or stops a large inflation” (Alesina, Ardagna and Trebbi, 2006, p. 2). These reforms typically involve privatization, deregulation, liberalization of goods markets, labor market reforms, or trade liberalizations (Sturzenegger and Tommasi, 1998, p. 3). These measures often entail an uneven distribution of the costs of reform across groups in the short-term before the benefits unfold in the long-term and increase the overall well-being of a society (Olson, 1982; Krueger, 1993; Rodrik, 1996; Tommasi and Velasco, 1996).

The core of theoretical models aiming to explain the delay of reform, which are ultimately necessary to adhere to budget constraints and to avert outright crises, is the struggle of interest groups over political power and the distribution of the costs of reform. Alesina and Drazen (1991) provide the most widely cited intuition of how such political bargaining over reform can be delayed. In their model, interest groups strive to shift the costs of reforming onto other social groups by embarking on a “war of attrition.” They attempt to wait each other out until one group concedes and acquiesces to reforms which may ultimately see them bearing a disproportionate share of the costs. Reform occurs, then, when distributional conflict among interest groups is resolved.

The Alesina and Drazen model implies that the extent to which reform is delayed depends on the degree of political polarization as a function of distributional conflict. Distributional conflict, in turn, is higher the more unequal the income distribution is in a country. In other words, the war of attrition model implies that countries with higher levels of income inequality exhibit greater political polarization and longer periods of instability due to protracted reform. The reason for this is that groups cannot agree to sharing the costs of reform due to information asymmetries: agreement over the distribution of costs would entail revealing information about relative political power. Such conflict of interest is difficult to resolve efficiently as a commitment problem arises. Compensation mechanisms are generally incredible as each group cannot commit *not* to abuse their relatively greater political power in the future. The credibility of commitments can thus be understood as a problem about the future exercise of political power (Acemoglu, Johnson and Robinson, 2005).

A series of other contributions links inequality in the form of initial unequal distribution of economic and political endowments to commitment problems. Inequality tends to benefit a narrow group of elites which extract rents from the economy. These elites are reluctant to allow institutional change as this could threaten their relative supremacy over political power and economic rents. Even when reforms are not a zero-sum distributive game and increase the well-being of the society overall, commitment problems arise to ensure that elites will not be relatively worse off. Rajan (2009) follows this intuition and provides a model that takes such unequal endowments as a root cause for underdevelopment. Each group in a society prefers reforms that benefit their own group, however, in an unequal society these reforms come at the expense of other groups’ rents. Rent preservation therefore inhibits support for comprehensive reforms. Similarly, Hoff and Stiglitz (2008) emphasize a commitment problem as the critical feature to explain why countries find it difficult to transition to a rule-of-law state, in which rent extracting from narrow elites would be curbed. According to their model, theft committed during the non-rule-of-law state cannot credibly be forgiven in a new state, which reduces the demand for reforms.

Commitment problems also arise when the outcomes of reforms are uncertain *ex ante*. In another landmark contribution, Fernandez and Rodrik (1991) show that actors develop a status quo bias because of the uncertainty regarding the distribution of endowments *ex post*. As the individual “winners” and “losers” from reform cannot be identified *ex ante* they prefer the status quo over reform.

The question then arises how states can exit this vicious cycle of rent preservation. Literature points to three mechanisms in particular: revolution or the credible threat thereof, a fundamental shift in elites' preferences, or economic crises. Acemoglu and Robinson (2000, 2001), for example, formalize the argument that the disenfranchised poor can contest power of rich elites by threatening revolution, in particular when opportunity costs are low, such as during recessions. Concessions of elites for reform and institutional change are made to prevent popular upheaval and their removal from power. Lizzeri and Perisco (2004) argue that such institutional change can come about even in the absence of the imminent threat of revolution. Elites come to prefer institutional change as they reappraise improvements in the provision of public goods due to socio-economic change.

Lastly, a complex and multi-layered literature examines the role of crises as a trigger for reform.[4] Crises can create the conditions under which reform is undertaken that would not otherwise be possible. Olson (1982) offers an early interpretation of this mechanism. Social interest groups become powerful in times of economic prosperity and tend to oppose the reforming of rules that made them powerful in the first place. Their ability to block socially beneficial reform leads to the society becoming "sclerotic." Eventually, economic conditions deteriorate and turn into a crisis. According to Olson, only a crisis can weaken their vested interests sufficiently to be overcome.

Ranciere and Tornell (2015) and Tornell (1998) offer more refined interpretations. In their models, powerful interest groups tend to overappropriate resources within an economy. As economic conditions deteriorate, declining aggregate resources limit the ability for future appropriations. According to Ranciere and Tornell, conflict among these interest groups erupts, which is resolved by the use of structural reform as a strategic tool to curb the power of rival groups within a new regime. Drazen and Grilli (1993) show that crises can accelerate the resolution of distributional conflict. Their model predicts that crises can ultimately be welfare enhancing as they accelerate the occurrence of reform and therefore leave the society overall better off in the long-run.[5] However, as the body of this dissertation will discuss, the causal mechanisms by which crises can induce reform are not obvious and require detailed discussion.

This line of literature, however, leaves a central question unanswered: Why are countries failing to develop institutional mechanisms that could solve commitment problems, even if the benefits of reform would be significant for society at large?[6] Drazen and Easterly (2001) put the question another way by asking, why "things need to get very bad (and not just bad) to induce reform"? (p. 130, italics in original) The literature of the first stream already offered some answers to this question. Tabellini and Alesina (1990), for example, offer a model to explain excessive budget deficits or surpluses with

[4] The link between crises and reform is only briefly touched upon in this section as it is discussed at length in chapter 3.
[5] Bruno and Easterly (1996) and Drazen and Easterly (2001) offer empirical confirmations of the Drazen and Grilli model.
[6] For example, Keefer and Stasavage (2003) argue that central banks constitute one such mechanism. Central banks are conferred to the responsibility to provide monetary policy based on technical expertise rather than political arguments which enhances the credibility of monetary policy.

the inability of present day voters to bind the choices of future voters. This entails not only a commitment problem but also hints at different sets of preferences, ideologies, and norms which determine policy choice. The war of attrition model by Alesina and Drazen (1991) can be interpreted in a similar way as well. If all groups could agree to bear the burden of the costs of reform equally, there would be no delay in stabilization. The ability of groups to agree on the distribution of costs, however, depends on their degree of polarization which can aggravated by differences in norms and preferences. The following sections review the literature on how such norms and preferences can induce polarization and impact political collaboration on reform.

2.2. Stream 2: Social Norms of (Non-)Cooperation

The second stream of research on the political economy of reform departed from investigating macroeconomic reforms and the contestation among organized interest groups that are finite in number. Instead, the second stream literature focuses on agency problems within a much more diffuse, numerous, and unorganized set of actors. Dixit (2003) offers an interpretation of the interrelationships between actors based on principal-agent theory in which political contracts are being exchanged. These interrelationships, however, can become very complex. The root problem is that political contracts lack enforceability as no independent, superior third party exists that could surveil them. Acemoglu (2003) argues that this lack of enforceability is the root cause of inefficient policies as these serve the interests of politicians and specific social groups at the expense of the rest of the population. As the contracts between principals and agents cannot be enforced externally, they have to be self-enforcing which entails a Prisoner's Dilemma, that is, a situation in which the pursuit of individual interests leads to pareto-suboptimal outcome: each agent has an incentive to extract additional rents in favor of the own group at the expense of others because of rational beliefs that others do too. Finding solutions to this dilemma then depends on informal mechanisms to sanction defectors of political contracts, which reflects on the set of norms that governs social and political behavior.

Dixit (2018), for example, applies these considerations to the case of corruption. He describes how businesses would each have an interest in not paying bribes for winning public tenders or licenses as it reduces their profit margins. Nevertheless, they get caught in a high-corruption equilibrium as they find it optimal to pay bribes to obtain contracts in the first place, based on the rational belief that other businesses pay bribes too. These norms of non-cooperation can be extremely rigid and sticky. Olken and Pande (2012) review the literature on anti-corruption campaigns and show how these norms survive institutional changes. Politicians and citizens tend to adapt their behavior and simply circumvent regulations to find new ways for corrupt behavior. Acemoglu and Jackson (2017) confirm these results more formally by discussing how laws and social norms interact. They show that laws that are in strong conflict with existing norms can ultimately have a negative effect. An abrupt tightening of laws can induce a critical mass of people to prefer to break the law which makes effective enforcement even less likely. That way, law-breaking can "snowball" and exacerbate lawlessness. The authors stress that laws can be successful in shaping social norms when they are gradually imposed in accord with prevailing norms.

The extent to which a polity can provide solutions to this dilemma depends on a range of characteristics of political institutions that structure political exchange. These characteristics determine the degree to which actors can collaborate on reform and the quality of the policies so produced. Spiller and Tommasi (2003) leverage formal transaction-cost theory to model political collaboration in the form of political transactions. These transactions take the form of intertemporal agreements in that political actors bargain over reform with political exchanges, such as a vote for project A today in return for resources or a vote for project B tomorrow. The authors discuss several features of a political environment that affect the ability of political actors to engage in intertemporal agreements. Among these requirements is the observability of "political moves" of other actors and the degree to which political bargain takes place in formal arenas which provide some sort of enforcement mechanisms.[7] Scartascini, Stein and Tommasi (2013) and Tommasi, Scartascini and Stein (2014) develop this argument further and emphasize the intertemporal nature of political exchanges as a significant determinant that facilitates political collaboration. If actors are temporally linked, they develop incentives to set up a system of norms that can lend credibility to their exchanges.

The legitimacy and behavior of political actors can be a significant factor in facilitating the credibility of political exchanges and influencing the norms of cooperative behavior. Hermalin (1998) models how political actors can assume a leadership role and thereby induce others to follow and support the leaders' actions. Akerlof (2017) develops this argument further by providing a formal theory of legitimacy of political leaders. His model follows earlier research which identified electoral cycles as a significant predictor for the success of reform: new governments are found to be more likely to implement reform which some authors attribute to the higher degrees of legitimacy a government enjoys just after having been elected (Pinea, 1994; Williamson and Haggard, 1994).

Akerlof argues that legitimate leadership introduces rules which followers feel a duty to fulfill. In doing so, their motivation increases to punish violators of rules they consider as legitimate. His model suggests that legitimacy of leadership, and the actions leaders can take to obtain it, can alter norms of cooperative behavior. Similar conclusions are drawn in Acemoglu and Jackson (2015) and Bidner and Francois (2013). Tompson and Rice (2009) confirm these considerations empirically in a comprehensive study on pension, labor, and product market reforms in OECD countries. The authors

[7] Political transactions theory is discussed in more detail in the body of the dissertation, chapter 5.

emphasize that such reform is much more likely to succeed when political leaders have a strong electoral mandate for a reform and provide political leadership.

Akerlof treats legitimacy as exogenous, a characteristic that leaders can choose to invest in. However, the origins of legitimacy for leaders and rules are not obvious but appear to have a significant impact on the degree to which they are followed. Dal Bó, Foster and Putterman (2010), for example, show in an experimental study that rules are more likely to be followed by agents when they are chosen collectively and evolved endogenously, rather than being imposed by an external entity. Their results have important implications for development economists. They suggest that reform measures that are part of reform programs demanded by international organizations inherently have a lower likelihood to be implemented and followed. Their results speak to the literature on the success of international donor organizations to instigate reform, whose evidence is ambiguous (Abiad and Mody, 2005; Biglaiser and DeRouen, 2011; Hallerberg and Scartascini, 2015).

A central implication of this stream of research is that political constraints on reform result from norms that are suboptimal and curtail cooperative behavior and thereby political collaboration on reform. They may be characterized by features such as clientelism, or low levels of general trust which impede the credibility of intertemporal political exchanges and the legitimacy of leaders. The next section will explore how such norms can emerge from preferences inherent in a country's constituencies.

2.3. Stream 3: Divergence of Preferences

This section briefly examines a large literature on the roots and repercussions of ideological disagreements among actors and social groups over economic and political fundamentals for reform. I first trace the origins of individual preferences by discussing the link between ethnic and ideological heterogeneity, cultural and economic attitudes, and economic outcomes. Thereafter, I examine the effects of these heterogeneities for political collaboration on reform.

Roots of Diverging Preferences

Ethnic divisions are found to be a basic underlying factor in explaining comparative economic development. Ashraf and Galor (2013) show that the relationship between ethnic heterogeneity in the form of genetic diversity is associated with economic development in a hump-shaped form: high levels of diversity reduce income by increasing mistrust and non-cooperative behavior, while low levels of diversity impede a society's aggregate productivity by reducing the capacity to adopt and integrate more efficient methods of production. Their findings complement a range of studies that investigate the effect of ethnic diversity on political and economic outcomes, in particular the provision of public goods which will be discussed below (Easterly and Levine, 1997; Alesina, Baqir and Easterly, 1999; Alesina et al., 2003; Putnam, 2007). The degree of diversity within a society hence seems to be connected to political constraints to reform that, if implemented, would benefit society.

One possible implication of the association of ethnic diversity with economic and political outcomes is that cultural differences and social values within a society matter (Guiso, Sapienza and Zingales, 2006; Alesina and Giuliano, 2015). Guiso, Sapienza and Zingales (2006) provide a widely referenced definition of culture "as those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." (p. 23, original in italics) While the debate about the effect of culture on economic development dates back many decades, recent advances in data provisioning and theoretical foundations make a more nuanced discussion possible. Alesina and Giuliano (2011), for example, use World Values Survey data to show that individuals who rely strongly on their family for service provisioning, insurance, and transfer of resources experience a lower degree of generalized trust, civic engagement, and political participation. Fisman and Miguel (2007) provide evidence on the extent to which cultural norms influence behavior as well. The authors show that politicians coming from more corrupt countries have received more parking tickets while being under immunity from the United Nations working in New York. These cultural values can be extraordinarily rigid and adapt only slowly to changing economic and political environments (Voigtländer and Voth, 2012; Alesina, Giuliano and Nunn, 2013).

Cultural and social values can hence serve as a predictor for political preferences. For example, there exists a large literature on the reasons for preferences of the size of governments and redistribution. Economic theory suggests that generally lower income individuals would prefer larger governments since higher income individuals within a society pay for it via relatively higher taxes (for example, Meltzer and Richard, 1981). The predictions of these models, however, fail to reflect reality where tax rates tend to be lower than predicted, even in democratic countries in which the median voter is poorer than the mean. Alesina and Angeletos (2005) address this puzzle and show that considerations of equality and fairness in the process of redistribution shapes policy preferences. They provide evidence that perceptions of fairness of social competition influence redistributive policies: in societies in which people believe that their individual effort determines their income, they will opt for low levels of redistribution. Instead, in societies in which people believe that the incomes are determined by luck or corruption, higher tax environments prevail.

By confirming these results, Alesina and La Ferrara (2005) investigate the relationship between individual preferences for fairness, expectations of income and preferences for redistribution. Among others, the authors find that respondents with lower income and higher preferences for fairness demand higher redistribution, however, individuals with higher upward economic mobility prefer lower degrees of redistribution. Durante, Putterman and van der Weele (2014) provide similar results in an experimental setup. Alesina and Fuchs-Schündeln (2007) show that individual exposure to a political system, such as communism in their case, can drive distributional preferences as well. The results of these studies suggest that relative economic positions are only one driver of diverging policy preferences within a society. Other drivers include preferences for fairness or perceptions on the opportunities for upward mobility, which can be a cultural heritage. Giuliano and Spilimbergo (2014) show that economic crises and recessions can increase demands for redistribution. They provide evidence that individuals who lived through crisis situations are more likely to vote left and assign a greater role for governments.

To date, much scholarly attention is being given to the role of citizens' information for determining the origins of distributional and institutional preferences (Glaeser and Sunstein, 2013; World Bank, 2016b). The leadership and legitimacy of politicians play a crucial role in this regard. However, one of the key questions emanating from models, such as the one from Akerlof (2017), is where legitimacy of leaders come from, and how this shapes preferences for public goods. After all, the literature on the roots of policy preferences requires more work, in particular in collaboration with research areas such as sociology and political science, to draw encompassing conclusions.

Fractionalization and Ethnic Diversity

The literature reviewed above leaves unexplained the question why politicians who have superior information and expert advice nevertheless protract reform that would be socially beneficial. Divergent preferences based on cultural heritage are not a sufficient condition for persistent disagreement on prudent compromise for reform. An answer to this question can be found in research on the impact of ethnic diversity and identity politics on the provisioning of public goods. As part of the literature of the third stream these studies give insights into how diverging preferences become organized and therefore influence political collaboration.

Most contributions refer to diversity as fractionalization, a measure that takes the probability that two randomly drawn individuals from the a population will be of the same ethnicity or social group (Papyrakis and Mo, 2014). In a governmental context, fractionalization commonly refers to the "probability that two deputies picked at random from among the government parties will be of different parties" (Cruz, Keefer and Scartascini, 2016, p. 12). Fractionalization can be considered as a cost of overcoming differences for the exchange and supply of public goods. Alesina, Baqir and Easterly (1999) show theoretically that ethnic diversity reduces government service provision. By assuming that spending preferences differ by group, greater heterogeneity consequently leads to disagreement over resource allocation and the adoption of a "compromise" good. Since this good is further away from groups' preferences, citizens are less willing to fund the good.

While some recent works criticize this view in favor of spatial accounts (Soifer, 2016), evidence for the effects of fractionalization is abundant (Habyarimana *et al.*, 2007; Putnam, 2007; Chakravarty and Fonseca, 2014). Beach and Jones (2017), for example, investigate the extent to which ethnic diversity within Californian City Councils affects spending on public goods. They find that more diverse city councils spend less on public goods, which is more pronounced for cities with high levels of segregation and economic inequality. The authors interpret these findings as confirming the Alesina, Baqir, and Easterly model in that increased diversity creates higher levels of disagreement among political actors.

More fractionalized countries also tend to exhibit lower levels of trust which hampers political collaboration, especially in countries in which few other ethno-religious characteristics establish cross-cutting dimensions of identity (Finseraas and Jakobsson, 2012). Alesina and Zhuravskaya (2011), for example, find that more ethnically "segregated" countries, i.e., countries in which ethnically distinct groups live more spatially separated, experience a lower quality of government. They find lack of trust to be the dominant transmission channel between segregation and low governance quality, which tends to be lower in more segregated countries. Other studies point out that the likelihood of violent conflict increases in more segmented countries (Vogt, 2018).

Lack of trust among ethnicities might also play a role within governmental institutions, as lack of trust among political parties could impede collaboration among parties and hamper reform efforts. Desmet, Ortuño-Ortín and Wacziarg (2017) investigate the relationship between ethnicity as a predictor of cultural values and various political economy outcomes. They find that countries in which ethnicity is a strong predictor of cultural values tend to have a higher likelihood of civil conflict and lower provisioning of public goods. To explain these results, the authors point to increasing "social antagonism" in "societies where individuals differ from each other in both ethnicity and culture" (p. 2481).

The effects of such social antagonisms can be exacerbated by inequalities across groups in fractionalized countries. Alesina, Michalopoulos and Papaioannou (2016) argue that economic inequalities between different groups within the same country shape comparative development more than ethnic plurality per se. They show in a study on Afghanistan that ethnic inequality is strongly and inversely associated with economic development, which goes beyond the inequality across regions and administrative units. In discussing transmission channels, they contend that unequal income distribution across ethnic groups leads to political inequality based on ethnic affiliation, thereby giving rise to between-group polarization and subsequently discriminatory policies. Similarly, Kyriacou (2013) shows that the quality of governments depends on the extent to which ethnic differences overlap with income differences. Anderson, Mellor and Milyo (2008) confirm the negative relationship between inequality and public goods provisioning in an experimental setup, while van Staveren and Pervaiz (2017) find social exclusion as a measure of inequality to be of higher relevance for growth than diversity per se.

Identity Politics

The above studies indicate that ethno-sectarian identity can follow similar mechanisms and fulfill similar purposes as interest group identity, which was the main unit of analysis in the first stream of literature discussed above. Identity politics, then, refers to exclusive political alliances that center on "inherited characteristics of social groups that seem to have little scope for voluntary adoption or rejection" (Cammett, 2014, p. 9), such as religion or ethnicity, rather than ideological position. Recent literature unveiled several mechanisms by which identity-based politics can shape political outcomes.

Like fractionalization, identity-based politics can reduce the level and effectiveness of the provisioning of public goods. Chakravarty and Fonseca (2014), for example, study the role of social identity in determining the impact of social fragmentation on public goods provisioning using laboratory experiments. They find that increases in fragmentation reduces public good provisioning by majority group members, which appears to be driven by identity preferences rather than self-interest.

In this way, identity politics can aggravate political collaboration by undermining the effectiveness of political contestation and resource allocation. The provisioning of public goods can then be abused as a tool for electoral contestation among parties. Cammett (2014, 2015) investigates the role of public goods provisioning for identity-based parties. She provides evidence from Lebanon and shows that locally dominant political groups provide public goods, health care in particular, according to their electoral and political strategies rather than to the benefit of society. Along these lines, Salti and Chaaban (2010) show also for the case of Lebanon that the allocation of resources from central to local governments follows a "one-man-one-dollar rule" rather than a distribution according to needs: each community receives resources according to their population size rather than their relative wealth or necessity assessments.

Another mechanism that connects identity politics and public goods provision is the quality of policies and politicians. Banerjee and Pande (2007) find that the competencies and capacities of politicians are likely to decrease in fractionalized polities, particularly in consociational ones. They provide evidence from India and show that parties that cater to caste identities more frequently rely on candidates that have a criminal record. In a theoretical contribution, the authors explain this result with voters' preferences for reliable distribution rather than honesty.

Political Polarization

Diverging preferences of social or ethnic groups can be exacerbated by various channels, such as information or economic shocks (Campante and Hojman, 2013). The farther away the preferences between groups are, the more difficulties groups encounter to collaborate on reform. In a seminal contribution, Easterly and Levine (1997) show that ethnic diversity and polarization had differing transmission channels by which they influence economic and political outcomes, a result more recent studies confirm (Gören, 2014).

Prevailing concepts of polarization aim to measure the potential for latent conflict within a society. The concept was first formalized by Esteban and Ray (1994) who offer two mechanisms to capture the sum of effective interpersonal antagonism in a society: i) the degree of identification towards members of the own group and ii) the alienation felt towards other groups. Polarization becomes larger when group members become more similar vis-à-vis each other or the distances between groups increases. Following Esteban and Ray (1994), Torenvlied and Haarhuis (2008) adapt this definition to define policy polarization with differences in policy positions.

The effects of political polarization have received much attention in recent political science literature, in particular the tendency to increase violent conflict (Esteban and Ray, 2008; Esteban, Mayoral and Ray, 2012). Once again, the war of attrition model by Alesina and Drazen (1991) provides an early indication of the mechanism by which polarization can influence collaboration on reform. In their model, actors refrain from collaborating in an effort to avoid revealing their relative political and economic strength to other actors by conceding to bear a share of the costs.

In more recent work, polarization, then, is found to impact the adoption of “significant” reform by inducing legislative gridlock (Binder, 1999; D. R. Jones, 2001; Clinton and Lapinski, 2006). McCarty, Poole and Rosenthal (2006, pp. 175–189) show that polarization decreases law production more generally. Torenvlied and Haarhuis (2008) develop a spatial model of reform based on veto player theory that takes into account differences in policy positions among groups rather than distributional conflict. They show that higher levels of polarization decrease the “level” of anti-corruption reform in African countries.

2.4. Conclusion & Thematic Integration

As this review has shown, the literature on the political economy of reform has provided important insights into how and why collaboration on reform takes place or gets delayed. However, it leaves important questions in need of further research.

The Effect of Crises on Political Collaboration

As outlined above and discussed at length in chapter 3 and 6, the mechanisms by which crises impact reform are theoretically well-established but exhibit ambiguous results in empirical literature. In chapter 3, I trace back this ambiguity to methodological shortcomings of empirical models. The methodological limitations of empirical models relate to the operationalization of the concepts of crises and reform, which tend to rely on reform indices and fixed thresholds of macroeconomic variables to indicate crises. It is in particular the use of aggregate reform indices, reflecting the relative change in a legislative environment, however, that curtails the extent to which empirical models can provide insights into the mechanisms of political collaboration (Babecký and Campos, 2011; Campos and Horváth, 2012).

Chapter 6 elaborates on this discussion and identifies in conceptual and epistemological, rather than methodological, shortcoming in extant approaches on examining the relationship between crises and reform. The chapter shows why quantitative approaches have limited explanatory power to identify the mechanisms by which crises can make collaboration possible that would otherwise be blocked. This limitation originates in the nature of crises as an instance of insecurity, rather than uncertainty (Harberger, 1993; Blyth, 2002). In such situations, the assumption that agents act based on predictable objective functions becomes untenable: in severe crises, actors lose confidence in the beliefs and principles that have guided their actions in the past so that the ostensible material positions of actors become themselves underdetermined. This uncertainty about their own interests with regard to material positions can open pathways for alternative beliefs as to how the economy functions. The chapter therefore argues that constructivist interpretations of crises are potentially better suited than rationalist ones to indicate crises and emphasizes that empirical analyses should be careful in drawing direct causal relationships from individual crises episodes to reform episodes.

The Effects of Fractionalization on Political Collaboration

The literature reviewed above explains why a given degree of fractionalization can delay the occurrence of reform and covers the impact of fractionalization on political and economic outcomes in a significant body of research. However, the transmission channels that explain these outcomes, i.e. the dynamics of political collaboration on reform in fractionalized governmental institutions, are less understood. For example, the theoretical models by Tseblis (2002) or Alesina, Baqir and Easterly (1999) only explain why differences over spending preferences for public goods can lead to lower or delayed collaboration, not which compromise good will eventually be agreed upon. Similarly, empirical investigations such as those of Beach and Jones (2017), as well as experiments such as by

Chakravarty and Fonseca (2014) do not differentiate between the types of public goods eventually provided as a function of the characteristics of the population investigated.

Extant literature therefore fails to sufficiently explain observable variation in collaboration on reform across time and policy areas. As will be discussed below, present day empirical models on the political economy of reform hamper a differentiated analysis of political collaboration by, for example, relying on aggregate indices of reform, which cannot account for the differing institutional requirements of distinct types of legislation. That way, important phenomena remain unexplained. As the example in the introduction of this thesis illustrates, why can fractionalization hinder collaboration on reform in some areas, while collaboration in others remains unaffected? Which types of reform are possible in the face of increased fractionalization, and which are blocked?

This thesis argues that important insights on political collaboration can be gained when reform is treated as a multi-layered concept in empirical analysis. When differentiating reform not only between policy areas, but also between layers of governmental activity and governmental institutions, a researcher can obtain a fuller understanding of the political dynamics that shape collaboration on reform. To that end, I offer an alternative approach to measure reform. I establish a new data set containing all important legislative texts in Lebanon since independence 1943 until 2016. Chapter 4 introduces the data set in detail and discusses agenda-setting theory to inform the analysis. The chapter shows that legislative activity in Lebanon can exhibit significant variation across policy areas, time, and governmental institutions despite being in settings of similar degrees of fractionalization.

Towards a Framework to Explain Political Collaboration

After having identified the gaps in the literature (chapter 2 and 3) and established a data set that lends itself to answer the research questions outlined (chapter 4), chapter 5 of this thesis provides a conceptual framework of political collaboration on reform. The framework addresses the underlying research question of this thesis and contributes towards a theory of political collaboration in order to explain variation of legislative activity across policy areas and time. The framework combines two theoretical approaches that allow a researcher to reflect the multidimensional nature of reform. First, the framework leverages political transactions theory (Spiller and Tommasi, 2003), which seeks to describe how the functioning of political institutions impacts upon the capacity of political actors to engage in political transactions and, hence, the quality of policies. Second, this view is combined with agenda-setting theory, which explains how and why specific policy issues receive political attention (Jones and Baumgartner, 2005).

Based on the framework, I argue that the properties of a reform project determine the extent to which fractionalization affects political collaboration on reform: the higher the institutional requirements of a reform are, i.e., the number and nature of political actors and institutions involved in accrediting the legislation, and the broader its impact, i.e. the number of groups that are affected, the more fractionalization can impede political collaboration. In this way, the study provides more detailed investigation into the mechanisms that affect collaboration, in particular in fractionalized contexts. Theory, methodology and results are discussed in detail in chapter 5.

3. DO CRISES INDUCE REFORM? A CRITICAL REVIEW OF CONCEPTION, METHODOLOGY AND EMPIRICAL EVIDENCE OF THE 'CRISIS HYPOTHESIS'

3.1. Introduction

The previous chapter has reviewed and discussed dominant theories in the literature on the political economy of reform. One important theory that aims to explain political collaboration is the crisis hypothesis, which predicts that economic crises beget the implementation of economic reform. This notion is commonly referred to as the 'crisis hypothesis' and argues that 'unsustainable' economic conditions (and the fear they could deteriorate even further) serve as a catalyst for subsequent reform (for example Drazen and Grilli, 1993; Rodrik, 1996; Tommasi and Velasco, 1996). The hypothesis has become well established in economic literature and is regarded as an "orthodoxy" of the political economy of reform (Drazen, 2000, p. 444).

When confronted with the global economic and financial turmoil experienced since the late-2000s, however, the central tenet of the crisis hypothesis appears to warrant further scrutiny. As noted by economist Nouriel Roubini in the aftermath of the 2008 financial crisis, reform in the wake of a crisis is by no means a given: "Had policy makers failed to arrest the crisis, as they failed during the Depression, the calls for reform today would be deafening: there's nothing like ubiquitous breadlines and 25 percent unemployment to focus the minds of legislators. But because the disaster was handled more deftly this time, the impetus for deep, structural reforms of the financial system has faltered." (Roubini and Mihm, 2011, p. 183)

Rather than characterizing the repercussions of the 2008 crisis as not having been 'severe enough' to trigger reform, this statement indicates that the impetus for reform might depend more on a government's (in)ability to manage the immediate short-term consequences of a crisis. Further, it suggests that the determinants which facilitate the initial introduction and the eventual implementation of a reform agenda are not the same. This chapter argues that the way the crisis hypothesis commonly operationalizes its key concepts - namely, crisis, reform, and the political mediation surrounding the latter - make it difficult to take such distinctions into account for empirical testing. Empirical modeling then risks conflating the distinct causal connections between these three key concepts, which in turn undermines conclusive interpretation of results.

Among prominent theories of the political economy of reform, the correlation between crisis and reform has received great attention but has yet to be fully understood (see Brooks and Kurtz, 2007). The hypothesis has been repeatedly criticized for failing to adequately reflect the complexity of the mechanism that links crisis and reform (for example Campos *et al.*, 2010; Corrales, 1998; Edwards and Steiner, 2000; Williamson, 1994). In response to such critiques, empirical models testing the crisis-reform link have become increasingly sophisticated, leading to the growing recognition that "[i]t is the type of crisis, and not just the existence of one, that is most crucial" (Hallerberg and Scartascini, 2015, p. 72). The application of the hypothesis has become diversified and has been applied to a wide set of crisis and reform measures, from inflation to employment and political crises and from financial to tax and healthcare reform. More recent studies have emphasized the origins of a given crisis (Waelti, 2015), and particularly the domestic institutional and political context that mediates the adoption of reform (for example Brooks and Kurtz, 2007; Campos *et al.*, 2010; Galasso, 2014). Thus, the incidence of reform as a response to crisis appears to depend on a much more complex set of factors than solely unsustainable economic conditions. Empirical testing requires a nuanced operationalization of both the nature of the crisis event and the reform process, as well as the political mediation in facilitating or hindering reform.

This chapter scrutinizes the crisis hypothesis by surveying empirical evidence and assessing its methodological operationalization. The survey finds the empirical evidence for many of the most widely discussed crisis-reform links (such as inflation to financial reform) to be inconclusive and, with it, the predictive power of the hypothesis to be weak despite its wide acceptance. In particular, the common procedure of indicating crises via fixed thresholds is problematic as it fails to take into account perceptions of what constitutes a crisis, how these perceptions may vary over times and across regions, and how they translate into the perception of the need for reform. Consequently, the political mediation of reform during crises is context dependent and influenced by the broader economic and institutional environment, which potentially alters the manner in which political mediation for reform is thought to work in crisis-free times. Empirical testing would thus benefit from reflecting social perception, as well as cross-regional and temporal heterogeneity of political mediation for reform within the hypothesis' key concepts. Comparative research methods that contrast the idiosyncrasies of different regions open up promising vistas for future research. They enable the integration of a political and institutional setting within a specific cultural, regional, and temporal context into a respective model. In this way, future research on the crisis hypothesis can enhance our understanding of how economic crises influence political dynamics in bringing about reform.

The chapter is organized as follows: The second section revisits relevant theoretical approaches on the crisis hypothesis. The third section surveys the empirical evidence and provides an overview of established crisis-reform links. Section four scrutinizes the general methodological operationalization of the hypothesis. Section five concludes by outlining implications for future research.

3.2. The Crisis Hypothesis in Theory

The idea that economic crisis facilitates reform appears in a variety of theoretical guises. This section reviews relevant theoretical approaches and pinpoints aspects that make a translation into empirical models difficult to operationalize (for a more detailed review see Drazen, 2000).

In explaining the dynamics of crises that enable reform, most theoretical approaches discuss variations of the interplay of social interest groups, which changes during crisis. In this vein, crises can be described as ‘moments of critical choice’ (Gourevitch, 1986). Crises enable a more open political environment by challenging established relationships between political actors and opening up opportunities for the creation of new ones. Olson (1982), for example, discusses social interest groups which become powerful in times of economic prosperity. Once those interest groups become powerful they tend to oppose the reforming of rules that made them powerful in the first place. Their vested interests block socially beneficial reform until conditions deteriorate and eventually turn into a crisis. According to Olson, only a crisis can weaken their vested interests sufficiently to be overcome. There exists no formal treatment of Olson’s contribution to our knowledge.

Formal modelling follows rationalist views and takes the form of game-theoretic models. In such models, rational agents, here social interest groups, make decisions on adopting or blocking reform by projecting and comparing related streams of payoffs. Accordingly, reform becomes more likely when the payoffs associated with the option “non-reforming” diminish (see, for example, Velasco 1999). Reform occurs when the expected stream of payoffs associated with reform “first exceeds that associated with the status quo” (Tommasi and Velasco, 1996, p. 198). As within the contribution by Olson, crises arise because interest groups tend to delay reform in ‘better times’. The delay, in turn, eventually causes economic conditions to deteriorate. Only when conditions ‘deteriorate sufficiently’ and eventually turn into a crisis, then, reform occurs. In Ranciere and Tornell (2015) and Tornell (1998), for example, powerful interest groups tend to overappropriate resources within an economy, which eventually is to the economy’s detriment. As economic conditions deteriorate, declining aggregate resources limit the ability for future appropriations. According to Ranciere and Tornell, conflict among these interest groups erupts, which is resolved by the use of structural reform as a strategic tool to curb the power of rival groups within a new regime.

The model introduced by Alesina and Drazen (1991) appears to be the most widely discussed. Interest groups strive to shift the costs of reforming onto other social groups by embarking on a “war of attrition”. They attempt to wait each other out until one group concedes, and acquiesces to reforms which may ultimately see them bearing a disproportionate share of the costs. The model assumes that information is distributed asymmetrically in that each group only knows with certainty its own costs of reform. It is important to note that it is not the distributional effect of income that is relevant for delayed reforming, but the conflict over the distribution of the burden. This implies that reforms whose cost distribution is dependent on political debate (such as tax reform or privatization) will be exposed to greater delay than reform for which less debate is required (such as financial reform) (see Lora and Olivera, 2004).

Crises hasten the deterioration of a given stream of payoffs. Drazen and Grilli (1993) elaborate on the war of attrition model and show that crises can even be welfare-enhancing and hence ‘desirable’. A crisis enables an agreement on reform and on the distribution of related costs sooner than otherwise possible. The associated stabilization, then, would leave a country better off in the long-run.

Such models entail two notions of crises that make a meaningful conceptualization for empirical testing complex. Firstly, they do not qualify the extent to which economic conditions need to deteriorate in order to be deemed a crisis and thereby trigger reform. The argument then risks implying that crises must have prevailed when reform occurred. In that sense, the absence of reform could simply mean that the crisis has not yet become ‘severe enough’, making the argument ‘virtually non-falsifiable’ (Rodrik, 1996). What makes the argument non-trivial then is the question why conditions often need to become *very* bad, and not just bad, in order to provoke reform (Drazen, 2000). As Drazen and Easterly (2001) put it: “Why is it “business as usual” until times get really bad?” (p. 131) Interpreting the crisis hypothesis as arguing that reform more likely follows extremely serious situations, rather that only moderately bad ones, then, makes the argument falsifiable (ibid.). This argument lends itself to comparative statements in the sense that ‘more severe crises lead to more reform sooner’ (as applied in Bruno and Easterly, 1996, Drazen and Easterly, 2001, Alesina *et al.*, 2006). Nevertheless, the absence of a reference point complicates the task of defining precise thresholds for empirical models, beyond which conditions can be considered as sufficiently serious to be indicative of a crisis (see Section 4.1).

Secondly, the models determine crises solely by means of economic variables. An economic deterioration then is thought to correlate somehow with the perceived need for reform. The mere deterioration of economic conditions, however, is not a sufficient condition for extant policies to be perceived as having failed and being in need of change. As Drazen (2000) puts it, “[i]t is not simply the view that the current situation is unacceptable, but that different types of policies must be tried.” (p. 446) Reform following crisis is thus not merely a product of economic conditions having become ‘bad enough’. Rather, it is the *perception* that change is needed which constitutes a central component for the political mediation of reform (see Harberger, 1993). However, the definition of crises based on economic variables offers no insights into role of perception regarding either the crisis itself or the need of change. As discussed below, making sense of this relationship requires a fuller consideration of the political context as well as the origins of a given crisis (see Section 4.3).

This strand of literature then puts forward reasons why reform is adopted sooner rather than later. Tommasi and Velasco (1996) argue that crises induce a ‘sense of urgency’ (p. 199). Something needs to be done *now*, as the crisis requires immediate political action. Still, the perceived urgency for reform would apply primarily to stabilization efforts in an economic environment that has experienced significant deterioration within a short period of time, such as exogenous shocks that lead to price instability. A lengthy deterioration of state variables by contrast, which evolved endogenously as a consequence of protracted reform in ‘better times’, does not ‘suddenly’ appear. While action might still be required urgently, the perception of the causes and consequences of either reforming or further delaying reform would be subject to different political dynamics (see Section 5). Rodrik (1992, 1996), for example, outlines how policy makers can act as ‘agenda setters’ in times of macroeconomic instability. According to Rodrik, because high inflation and macroeconomic instability harm the society as a whole, policymakers could take advantage of the high costs of further delaying reform by presenting domestic interests with a package of reform. They initiate reforms that specifically promise a return to stability while tying additional policies to the package. These additional policies may be incidental to the immediate crisis but pass through parliament in the shadow of the initial package.

The political dynamics in delaying or accelerating the adoption of reform are influenced by the uncertainty regarding the post-reform environment. Fernandez and Rodrik (1991) argue that the outcome of reform cannot be known ex ante, as political actors cannot determine who will win or lose out from a specific reform. It is only when economic conditions deteriorate sufficiently that interest groups accept the associated uncertainty (Laban and Sturzenegger, 1994). However, the specific challenges and risks politicians face due to ex ante uncertainty regarding the implications of their actions are substantially different depending on the reform in question (see Brooks and Kurtz, 2007). In other words, the ‘sense of urgency’ informs reform measures differently. While stabilization efforts in the form of, say, fiscal reform can be implemented rather quickly, far-reaching structural reform might require lengthy political mediation (see Section 4.2). As they might take significant time to design, implement and institutionalize they are not necessarily tied to the same ‘level of urgency’ throughout the reform process.

As a consequence, the theory of the crisis hypothesis offers little guidance as to how the key concepts for empirical testing – crisis, reform and political mediation – can be operationalized. As the remainder of the chapter will discuss, the operationalization of empirical approaches regarding what *constitutes* a crisis proves elusive, in that a crisis creates the necessary social and political perception of the need of a specific reform.

3.3. Do Crises Beget Reform? Surveying Empirical Evidence

This section reviews relevant empirical evidence on the crisis hypothesis. Table 3-1 provides an overview of 19 research papers which have specifically focused on the crisis hypothesis and gives information on the modelling structure, the country and time period under consideration, the categories of crises and reform under consideration, the specific measures implemented, and the findings derived. The papers have been selected on a “best evidence” basis (Slavin, 1995), by assessing both the papers’ quality and their relevance to the research question at hand. Given the extent of the literature on the political economy of reform, the central selection criterion was the explicit elaboration on the crisis hypothesis within the papers’ empirical model. The review thus excludes contributions that use crisis variables as mere control instruments. Finally, the papers had to be published in a peer-reviewed journal subsequent to the pioneering contribution of Drazen and Grilli in 1993.[8]

Two strands of empirical literature on the crisis hypothesis have emerged. The first strand (3 out of 19 papers) discusses the war of attrition model by Alesina and Drazen (1991) and its elaboration by Drazen and Grilli (1993). These models do not consider reform measures explicitly but draw conclusions about the occurrence of reform implicitly, following the amelioration of economic variables. The second strand uses regression and estimation models to test the effect of crises on specific types of reform. Both strands will now briefly be introduced.

Bruno and Easterly (1996) were the first to empirically test the Drazen and Grilli model. They compare two groups of developing countries, a group that experienced high inflation and stabilized afterwards and a group that did not experience a high-inflation period. By analyzing the countries’ public sector deficit and current account deficit they show that countries in the inflation-and-stabilization group enjoyed lower deficits after they stabilized than countries that did not experience a high-inflation period. They conclude that countries that experienced high inflation and subsequently achieved stabilization appear to have reformed their economic domain, while countries without such ‘crisis’ did not. They confirm the theoretical results of Drazen and Grilli (1993) and conclude that crises can have a ‘welfare-enhancing effect’.

Drazen and Easterly (2001) use a similar methodology to Bruno and Easterly and expand the scope of the analysis. As well as including a given country’s inflation rate in their model, they also test the black-market premium, GDP growth, government deficit, and current account balances. They too find supporting evidence for welfare-enhancing effect of crises in the cases of inflation and black market premium, but fail to do so in case of GDP growth, government deficit, or current account balance. However, they find the hypothesis to hold only “at the most extreme values” of inflation and black market premium (both above 1,000 percent), rendering it somewhat irrelevant for the

[8] An exception from these criteria has been made for the contribution of Tornell (1998), which was not published in a peer-reviewed journal but as a working chapter at *National Bureau of Economic Research.* The chapter is a major contribution to the field of research and received widespread attention.

Table 3-1: Summary of relevant studies on the crisis hypothesis

		Independent Variable / Crises		Dependent Variable / Reform		
Country Focus and Time Period	Model Focus	Type	Method	Type	Method	Findings
Abiad and Mody (2005): Financial Reform: What Shakes it? What Shapes it?						
Developed and Developing Countries (35) from 1973 - 1996	Relationship of financial reform and different types of crises	Balance of Payment / Debt	One of two conditions to be met: 1) a forced change in parity, abandonment of a pegged exchange rate, or an international rescue, and 2) an index of exchange market pressure exceeds a critical threshold of one and a half standard deviations above its mean	Financial Reform	Aggregate index on: 1) Directed credit/reserve requirements, 2) Interest rate controls, 3) Entry barriers and/or lack of pro-competition policies, 4) restrictive operational regulations, 5) degree of privatization in the financial sector, and 6) controls on international financial transactions	Balance of payment / debt crises positive and significant for financial liberalization Banking crises negatively significant for liberalization and hence lead to tightening of financial regulations Growth and inflation crises found insignificant Other influences: reforms promoted by a decline in US interest rates, by participation in IMF programs (pronounced mainly in countries with highly repressed financial sectors) and by openness to trade (where initial level of liberalization was low)
		Banking	Crisis for "period of financial distress resulting in the erosion of most or all of aggregate banking system capital." (p.85)			
		Economic	Negative GDP growth			
		Inflation	Inflation > 50% per year			
		Political Variables	1) Government partisanship, 2) Government structure (presidential or parliamentary)			
		External Influences	1) US Interest rates, 2) IMF involvement, 3) Openness to trade			
Agnello *et al.* (2015a): Do debt crises boost financial reforms?						
OECD and Non-OECD countries (no number) from 1980 - 2005	Role of different forms of financial crises for various aspects of financial reform	Debt	Differentiation between external and domestic debt crises, indicated by default on, repudiation or restructuring of debt. Dummy indicating the beginning of the crisis (based on Reinhart and Rogoff 2011)	Financial Reform	Dummy Variable based on financial liberalization index by Abiad *et al.* (2008), 1 = if yearly change of index > 0.05, 0 otherwise	Debt crises positive and significant for financial reform (sensitivity analysis only for external debt significant), as well as currency, inflation (no differentiation between 'inflation crisis' and 'hyperinflation episode'), and banking crises, with no difference between OECD and non-OECD countries Typology of crises appears to be insignificant for the occurrence of reform. Economic deterioration makes financial reform more likely in general. IMF stabilization programs, the quality of institutions and sovereign debt restructurings facilitate the implementation of financial reforms.
		Currency	Exchange rate depreciation > 15% per annum (based on Reinhart and Rogoff 2011)			
		Inflation	> 20% per annum, Hyperinflation if inflation rate > 500% per annum (based on Reinhart and Rogoff 2011)			
		Banking	Qualitative indication by occurrence of either of two points: 1) bank runs that lead to the closure, merging, or takeover by the public sector of one or more financial institutions; or 2) if there are no runs, the closure merging, takeover, or large-scale government assistance			

			of an important financial institution (or group of institutions) that marks the start of a string of similar outcomes for other financial institutions (based on Reinhart and Rogoff 2011)			
		Political Variables	Institutional quality			
		External Influences	1) IMF involvement, 2) 'ParisClub' (Debt rescheduling program)			
Agnello *et al.* (2015b): What determines the likelihood of structural reforms?						
Advanced, developing and emerging (55-60) from 1980 - 2005	Regression of several types of crises on reform indicators	Economic Debt Currency Inflation Banking Political Variables	Negative real GDP growth rate All other definitions as in Agnello *et al.* (2015a) and based on Reinhart and Rogoff (2011) See Reinhart and Rogoff (2011) See Reinhart and Rogoff (2011) See Reinhart and Rogoff (2011) Indication of 'distributional conflict' by using 1) Gini-coefficient and 2) total fractionalization index	Financial Reform Trade Reform Labor Market Reform Product Market Reform	Indicators on: Domestic finance liberalization, banking liberalization, international capital flow liberalization, external capital account liberalization (see Abiad *et al.* 2008) Index on average tariff rates, normalized between 0 (tariff rates of 60% or higher) and 1 (no tariff rates) Weighted average of: Centralized collective bargaining, conscription, cost of hiring, hiring regulations, mandated cost of worker dismissal, minimum wage Index for degree of flexibility of agriculture, electricity and telecommunications. Additionally, for OECD countries data of regulatory reform in industries: 1) Electricity, 2) gas supply, 3) Road fright, 4) air passenger transport, 5) rail transport, 6) post, 7) telecommunications	External debt crises main trigger of financial, banking and trade reforms Inflation and banking crises significant for external capital account reform Banking crises induce financial reforms (aggregate index) Economic recessions trigger financial, banking and trade reforms, especially in OECD countries No other significance found for labor market and product market reform. Only growth crises found significant for trade reform Political variables: only Gini-coefficient marginally significant for the likelihood of financial reforms
Alesina *et al.* (2006): Who Adjusts and When? The Political Economy of Reform						
Developing and developed countries ('large sample') from 1960 - 2003	Examination of the war of attrition model to indicate when and why stabilization occurs by regressing	Political Variables	Index on: 1) executive constraints (from 1 to 7), 2) years left in current term for executive. Dummy variables on: 3) Executive elections in a given year, 4) leftist party in power, 5) legislative elections in a given year, 6) direct presidential system, 7) electoral rule in lower	Government Deficit Crisis Inflation Crisis	Government budget deficit as a share of GDP above the 75th percentile, = 4.75% Inflation above the 75th percentile, = 14.05%	War of attrition model consistent with the crisis hypothesis, as it appears to be easier to stabilize more decisively in times of crises than in times of more 'moderate' economic problems Stabilization after crises more likely under "strong" government, especially presidential systems, systems with fewer veto rights of

	indicators of political systems on crisis indicators		house proportional, 8) party of executive holds absolute majority of legislative			institutions, in periods of a unified government (same party holding executive and legislature), with ruling parties having a large majority and after just having entered office (honeymoon period). External inducements of IMF have at best a moderate effect Results are similar for both crises modelled
Banerjee and Munger (2004): Move to markets? An empirical analysis of privatization in developing countries						
Low- and middle-income developing countries (35) from 1982 - 1999	Privatization indicated by three related, but distinct variables: (i) timing; (ii) pace; and (iii) intensity of privatization. Regressed on various political, economic and institutional factors	Government Deficit Inflation Economic External Influences Political Variables	Budget balance as a percentage of Gross Domestic Product (excluding grants) Annual inflation rate Annual growth rate 1) Foreign aid in percent of Gross National Investment, 2) Size of the public sector to GDP, 3) Size of public sector in the year of first privatization, 4) Stock market capitalization to GDP 1) Government years in office, 2) Right-wing executive, 3) Fractionalization 4) Democracy, 5) Institutional quality	Privatization	Based on three indicators: 1) Timing: 0 for the years of no privatization and 1 for the year of first privatization and thereafter; 2) Pace: Annual frequency of privatization transactions; 3) Intensity: Annual value of privatization proceeds	Privatization rather crisis driven than subject to long-term planning. No privatization found to be implemented without a preceding serious economic crisis Inflation significant for timing and intensity GDP growth significant only for timing Government deficit not significant Institutional quality significant, but not uniform. Countries with poor institutions privatize sooner, superior institutions lead to higher pace and intensity Fractionalization delays privatization, right-wing governments privatize more, democratic societies privatize sooner but delay implementation, government years in office insignificant
Brooks and Kurtz (2007): Capital, Trade, and the Political Economies of Reform						
Latin American countries (19) from 1985 - 1999	Influence of differing political contexts, particularly governmental partisanship, for liberalization during crisis	Economic Inflation Political Variables External Influences	Real per capita GDP growth rate Natural logarithm of inflation (only tested for trade reform) 1) Government partisanship, 2) Fractionalization 1) Fiscal deficits, 2) current account balance, 3) external debt to GDP, 4) aggregate size of economy (natural log of GDP in 2000 USD), 5) level of development (GDP per capita in 2000 USD), 6) IMF involvement	Trade Reform Financial Reform	See Lora and Olivera (2004), composite measure based on average tariff level and tariff dispersion Composite measure for capital account liberalization, based on 1) use of multiple exchange rates, 2) restriction on current and capital account, 3) compulsory turnover of export receipts	Recessions do not trigger both trade and cap. acc. liberalization. They rather occur during trade surpluses than in response to deficits Right-wing executives no more likely to liberalize trade than leftist executives in fragmented legislative settings; the lower the fragmentation though, right-wing executives liberalize, leftist executives rather do not. Fractionalization impels reform unconditional of governmental partisanship The higher the involvement of IMF, the lower the level of subsequent trade liberalization, while having no influence on cap. acc. liberalization. Lager economies have lower levels of trade and

						cap. acc. liberalization, while lower debt ratios are associated with higher cap. acc. openness
Bruno and Easterly (1996): Inflations Children: Tales of Crises that Beget Reform						
Developing countries (55) from 1960 - 1994	Testing war of attrition model by comparing macroeconomic variables in inflation-and-stabilization countries and no-inflation countries pre- and post-crisis	Inflation	Comparing inflation levels with lagged inflation levels in two groups of countries (high-inflation-and-stabilization and no-inflation)	Debt Crisis Current Account Crisis	Public sector deficit to GDP Current account deficits to GDP	Developing countries in the inflation-and-stabilization group had lower current account and public sector deficits after crisis compared to countries that did not experience high inflation. Hence, countries that experienced high inflation appear to have reformed, others did not Confirmation of the results by Drazen and Grilli (1993) in concluding that crises can have a welfare-enhancing effect, at least at high levels of inflation (>1000%)
Campos and Esfahani (1996): When and why do governments initiate public enterprise reform?						
Developing countries (24) from 1972 - 1993	Relationship of privatization efforts and economic downturn by leveraging estimation models and 24 distinct case studies of developing countries	Economic Political	Negative GDP per capita growth Experimentation with "a few indicators", but none of them regarded in model	Privatization	Public enterprise reform indicated by "a proclamation of new policies and guidelines to enhance market incentives for public enterprises, followed by an initiation of some of the proposed policy changes (for example, changes in prices, regulation, layoffs, divestiture, and opening of public enterprise markets)." (p.463) Proclamation and preliminary action needed to be done during the downturn plus one year in order to be regarded	Economic downturns found to create conditions that facilitate the introduction of public enterprise reforms. In 80% of the case studies privatization was preceded by economic downturns Inconclusive results for political crises, no relationship could be found and hence the crisis hypothesis for political crises could not be confirmed, nor falsified
Campos *et al.* (2010): Crises, What Crises? New Evidence on the Relative Roles of Political and Economic Crises in Begetting Reforms						
Developed, developing and transition countries (100,	Relationship of economic to political crisis by regressing economic and	Economic Political	Modelled by three indicators: 1) largest single year fall in GDP in % in 5-y period, 2) number of years of currency crisis in 5-y period and 3) current account balance	Labor Market Reform	Different indices for different regions, as no coherent single series exist. General emphasis on labor laws, extended by measures of labor market regulations and rigidities	Economic crises either weakly significant or insignificant for structural reform; more frequently their influence is even found to inhibit rather than trigger reform

differentiation in Developed, Africa, Asia, LAC, MENA and Transition) from 1960 - 2000	political crises parameters on measures of labor and trade liberalization		Political factors modelled by three indicators: 1) Index of social and political instability, indicated by number of revolutions and political assassinations during 5-year period, 2) Regime durability in years as a measure for absence of crisis and 3) political fractionalization	Trade Reform	Different indices for different regions. Index mainly reliant on information about Export Marketing Boards and Black Market Premiums	Political crises strongly significant with positive effect in case of trade reforms, and frequently negative and significant for labor market reforms. Political crises as well as political institutions appear to be more important trigger of reforms than economic ones, especially for trade reform
Drazen and Easterly (2001): Do Crises Induce Reform? Simple Empirical Tests of Conventional Wisdom						
Developed and developing countries (84-169) model-dependent from 1952/1970 - 1996	Testing of the war of attrition model by examining the relationship of macroeconomic variables and its lagged values at t+5	Inflation	Two models: 1) Splitting observations into percentiles across countries at t-5 and considering median inflation in each percentile at t. Specifically concentrating on the 90th percentile and above. 2) Organizing data in small number of groups of inflation periods to trace inflation in subsequent years (40-100%, 100-1000% and 1000% +)			Results support the crisis hypothesis in case of inflation and black market premium. Median inflation in countries within the highest percentiles at t-5 is significantly lower at t compared to countries that only experienced moderate inflation at t-5. However, the hypothesis holds almost only at extreme levels of crisis, rendering it somehow irrelevant for the majority of the sample
		Black Market Premium	See Inflation, modelled in both ways			Little to no support for hypothesis in case of GDP growth, no support for current account deficit and budget deficit
		GDP Growth	See inflation			Foreign aid appears to delay reform
		Government Deficit	Public sector balance over GDP; See Inflation			
		Current Account Balance	See inflation			
		External Influences	Foreign aid			
Galasso (2014): The Role of Partisanship During Economic Crises						
OECD countries (25) from 1975 - 2008	Reform responses by governments of different ideological orientation to economic crises	Economic	Output gap below 90th percentile of sample average, equaling -3,4%	Product Market Reform	Index on restrictions on competition and private sector governance. Compiled of: 1) entry barriers, 2) public ownership (privatization), 3) market shares of dominant players, 4) price controls. Industries: see Agnello *et al.* (2015b)	Economic crises related to fewer privatizations but more financial regulation. No relation of crises to product and labor market reform.
		Political Variables	1) Government partisanship, 2) number of years to next election, 3) number of years in office, 4) government fractionalization			During crises, political party responses differ from their usual political orientation in 'good' times. Right-wing parties promote financial market regulation instead of liberalization, center parties liberalize product markets and retrench UB, left-wing parties privatize. Fractionalized governments associated with
		External Influences	1) EU membership (after 1999), 2) EU's single market program (after 1993), 3) government fiscal position, 4) trade openness, 5) financial market efficiency (stock market capitalization to GDP)	Labor Market Reform	Index by two indicators: 1) degree of employment protection legislation (EPL) and 2) unemployment benefit replacement rate (UB)	

				Financial Reform	Aggregate index on financial policy change: 1) credit controls and excessively high reserve requirements, 2) interest rate controls, 3) entry barriers, 4) state ownership in the banking sector, 5) policies on securities markets, 6) prudential regulations and supervision of the banking sector, 7) restrictions on capital accounts, see Abiad *et al.* (2008)	fewer privatizations and higher regulation of product market reform Years to next election, years of government in office and stock market cap. insignificant. EU members have greater liberalization of product markets and higher UB replacement rates. European single market membership leads to higher product market liberalization and privatization
Lora and Olivera (2004): What Makes Reforms Likely? Political Economy Determinants of Reforms in Latin America						
Latin American countries (20) from 1985 - 1995	Comparison of influence of various political economy determinants for the likelihood of reform	Economic	1) Gap between real income per capita at the beginning of the period and its previous maximum level (since 1970) and 2) Growth in the years of recession	Trade Reform	Index on: 1) Average tariffs (incl. surcharges) and 2) tariff dispersion	Gap of income per capita with respect to previous peak appears to be the 'best measure' of crisis and is significant for: trade reform, privatization, the overall index, and labor reform (in order of beta coefficient, although beta is small compared to overall reform index). GDP growth in years of recession only significant for tax reform
		Inflation	1) Log of inflation when > 30%, 2) inflation tax (log(1+inflation rate)*M1/GDP (standard liquidity ratio)) and 3) volatility of inflation (standard deviation of the monthly variations of the consumer price index)	Tax Reform	Index on: 1) Max. marginal income tax rate on corporations, 2) max. marginal income tax rate on individuals, 3) basic VAT rate, and 4) productivity of VAT (ratio between the basic rate and actual collection in % of GDP)	Inflation significant for tax and, to a lesser extent, labor market reform (only volatility of inflation)
		Government Deficit	Consolidated public sector balance when deficits > 3% of GDP	Financial Reform	Index on: 1) freedom of interest rates on deposits, 2) freedom of interest rates on loans, 3) real level of reserves of bank deposits and 4) quality of banking and finance oversight (subjective scale)	Reforms, especially fiscal ones, appear to be more likely at the beginning of government periods (honeymoon period). None of the other political variables appear to be of significance
		Political Variables	1) Political fragmentation (indicated by effective number of parties in parliament and government party representation) and 2) Intensity of distributional conflicts (indicated by Gini coefficient and its change over a 5-year period)	Privatization	Sums accumulated from privatizations since 1988, including sales and other property transfers, as proportion of average public investment between 1985 and 1987	
				Labor Market Reform	Flexibility of legislation by 'objective' criteria on a discrete 0-2 scale based on 5 aspects: 1) hiring, 2) costs of dismissal after one year of work, 3) costs of dismissal after ten years of work, 4) overtime pay, and 5) social security contributions	
Hallerberg and Scartascini (2015): When Do Governments Improve Fiscal Institutions? Lessons from Financial Crisis and Fiscal Reform in Latin America						

Latin American countries (17) from 1990 - 2005	Connection of fiscal institutional reform and two forms of financial crises against the backdrop of the common pool problem	Debt	Dummy variable for period from initial debt default to debt restructuring	Financial Reform	Dummy variable, indicating the incidence of one of three kinds of reforms: 1) a numerical rule establishes ex ante constraints on debts, deficits, or expenditures (or all three), 2) a procedural rule specifies the norms and prerogatives of actors in the budget process, 3) a transparency rule makes it easier to follow what the government is doing on the budget	Debt crises significantly increase the probability for financial reforms
		Banking	Dummy variable that "extends from beginning to the end of a given crisis" (p. 54)			Banking crises are negative significant to fiscal reforms, thus lowering the probability of reform in times of crises
		Political Variables	1) Presidential election year, 2) United government (one party controls all houses of congress), 3) Ideology of president			No significant dependence to the involvement of the IMF and other political variables.
		External Influences	IMF involvement			
Høj *et al.* (2006): An Empirical Investigation of Political Economy Factors Behind Structural Reforms in OECD Countries						
OECD countries (21) from 1975 - 2003	Examination of various political economy determinants' influence on labor and product market reforms	Economic	Output gap > 4% in a given year and country (at different time lags)	Labor Market Reform	Indicators on: Employment Protection Legislation (EPL), Unemployment Benefit (UB), Tax Wedges on Labor Income, Implicit Tax rates on Older Age Work Income	Large increase in unemployment increases EPL and UB for long-term unemployed
		Employment	Increase in unemployment rate by more than two times its standard deviation in the overall sample			Economic crises reduce government intervention in air transport and postal services, but increase it in gas and rail sectors. Generally, product market reform more likely in times of economic upwind
		Political Variables	1) Government Partisanship (left-of-center government), 2) Time in office ('Mature Government' dummy for office time >2y)	Product Market Reform	Indicators on: state control, barriers to entry, market structure and state involvement; Industries: see Agnello *et al.* (2015b)	'Mature governments' tend to reform more, leftist governments reform less
		External Influences	1) Structural policy indicator in main trading partner, 2) Int. tariff barriers, 3) EU membership, 4) EU single market program, 5) Financial market policy indicator			Reforms in trading partner countries tend to strengthen domestic product market reforms, while their effects on labor market reforms are more ambiguous; international factors generally positive significant
Pitlik and Wirth (2003): Do crises promote the extent of economic liberalization?: an empirical test						
Developed and developing countries (123) from 1970 - 1999	Impact of growth and inflation crises on economic liberalization efforts in three scenarios of economic conditions	Economic	Consideration of 5-year periods by allocating points according to types of GDP growth: 2 for <-1%, 1 for -1-0%, and 0 for >0%. Added up over the period, >5 points make a severe crisis, 3-5 points make a medium crisis, <3 make up no crisis	Liberalization	Economic Freedom of the World Index by the Fraser Institute. Comprising of: 1) government size, calculated by government consumption and transfers and subsidies; 2) reliance on markets (government enterprises, regulation, tax burdens and price controls); 3) price stability; 4) freedom to use alternative currencies; 5) rule of law and secure property rights; 6) free trade; and 7) reliance on markets for capital allocation	Economic growth triggers liberalization efforts in a U-shaped relationship. Most liberalization reform efforts undertaken in times of deep growth crises, while times of medium crises are least related to reform. More reform is undertaken in times without a crisis
		Inflation	See "Economic": 0 points for <10% inflation, 1 for <40%, 2 for <100%, 3 for >100%; deep crisis at >10 points, medium crisis 2-10 points, no crisis at <2 points			Inflation crises significant for liberalization
		Political Variables	1) Fractionalization, 2) Democratization, 3) Political constraints for executive, 4) Political system (autocratic vs. democratic)			Degree of democracy and political constraints significant for liberalization. No significant findings for fractionalization and the political system

Roberts and Saeed (2012): Privatizations around the world: Economic or Political Determinants?						
Developed, developing and transition countries (50) from 1988 - 2006	Testing of various determinants that are supposed to facilitate privatization	Economic	Annual GDP growth rate	Privatization	Consideration of all privatization deals that exceed US$1 million. Listing both in terms of number of deals and amount of revenue generated per year	Economic conditions with limited impact on privatizations which rather occur in prosperous times, than being crisis driven. Only in case of developed countries lower inflation and higher economic growth lead to more privatization
		Inflation	Annual inflation rate			
		Government Deficit	Government budget balance for a given year, in national currency in % of GDP			
		Political Variables	1) Government orientation, 2) government years in office (honeymoon), 3) Institutional quality (law and order index)			More privatizations under right-wing governments, except in transition economies. Honeymoon in office only significant for transition economies
		External Influences	1) Current account balance (to GDP), 2) financial development (stock market cap. to GDP), 3) economic freedom index			Current account balance insignificant; financial development by contrast generally creates the environment to intensify privatization
Tornell (1998): Reform from within						
Developed and developing countries (108) from ~1970 - 1995	Comparison of the likelihood of trade reform in case of occurrence of economic and political crisis	Inflation	Inflation > 40% and having increased > 125% with respect to the previous year	Trade reform	Reform in year t in either of two cases: 1) Removal of trade barriers before t, or 2) increase of trade / GDP increased by more than 7% relative to previous year	Occurrence of reform much more likely if economic crises are accompanied by political crises. Conditional on joint occurrence of economic and political crisis, likelihood of reform is 60%, while it is 27% in case of economic crisis alone
		Economic	Income per capita in current USD decreases more than 18% relative to previous year			
		Political	Index on "political change", consisting of 9 different indicators of political authority patterns. "Drastic political change" occurs if index changes by more than 3 points with respect to the previous year			
Waelti (2015): Financial crisis begets financial reform? The origin of the crisis matters						
Developing and developed countries (72) from 1980 - 2005	Distinction of origins of crisis, particularly externally and domestically induced crises. Regression on measures of financial liberalization	Economic	Occurrence of 1) sudden stops (sudden stop in gross financial inflows from foreign investors) or 2) sudden flights (sudden increase in gross financial outflows)	Financial Reform	Financial liberalization index, based on Abiad and Mody (2005), Abiad *et al.* (2008)	Different origins of crisis do not affect the aggregate liberalization index, but individual dimensions differently. Sudden flights are significant for capital account restrictions, sudden stops for banking regulation and supervision
		Political Variables	1) New government first year in office (honeymoon), 2) Government partisanship, 3) Democracy Index			Only few variables significant for reform, particularly government partisanship and IMF involvement for "state ownership" and "interest rate controls". IMF involvement furthermore significant for "entry barriers"
		External Influences	1) IMF involvement, 2) Globalization Index			
Wiese (2014): What triggers reforms in OECD countries? Improved reform measurement and evidence from the healthcare sector						
OECD countries (23)	1) Development of a methodology to	Employment	Unemployment rate above 9.57%, equaling the sample mean plus the standard deviation	Health Care Reform	De-facto privatization of financing in the health care sector; measuring	Unemployment rate and debt crises positive significant for health care privatization.

from 1960 - 2010	identify economic reforms using *de jure* evidence 2) Testing the crisis hypothesis to identify triggers of health care financing reforms	Debt Growth Political Variables	Interest rate on long-term government debt > 11.42%, equaling the sample mean plus the standard deviation Negative annual accumulated economic growth 1) Government partisanship, 2) Fractionalization, 3) Government time in office		statistically significant policy induced shift from public to private sector financing of healthcare services	Annual recession positive and significant for health care privatization, but not in raw form (growth rate) None of the political factors investigated appear to be significant for health care reform

majority of their sample. Alesina, Ardagna, and Trebbi (2006) find support for the war of attrition model in cases of government budget deficits and inflation. They find stabilization more likely to occur in times of serious crises (rather than during periods of relatively moderate economic difficulties), after a new government has just entered office, and in countries with a 'strong' government (either a presidential system or a large ruling party majority) that faces few binding institutional constraints.

The second strand of research (16 out of 19 papers) disentangles the effects of different forms of crisis on reform measures. Table 3-2 provides an overview of the relationships between categories of crisis and reform identified by each paper. While the relatively small sample size does not lend itself to quantitative-statistical analyses, we opt for qualitative categorical analysis, by which several salient features across the studies in question can be identified.

Across the studies analyzed here, empirical results prove to be inconclusive for a number of the most intensely discussed crisis-reform relationships, such as the link of high inflation to financial reform and economic crises to trade liberalization. The results for inflation and economic crises in general are of particular interest, since much of the theoretical literature employs high inflation as an indicator of crisis. While Abiad and Mody (2005) find the effect of inflation crises to be insignificant, Agnello *et al.* (2015a, 2015b) both find inflation crises to trigger financial reform. While all contributions make use of the same data for indicating financial reform, the thresholds indicating inflation crises differ, with the former utilizing an inflation rate of 50% per annum and the latter a 20% inflation rate. As for economic crises and financial reform, Abiad and Mody (2005) find economic crises (in terms of negative GDP growth) to be insignificant, in contrast to Waelti (2015), Agnello *et al.* (2015b) and Galasso (2014). These studies employ different measures for economic crises but all make use of the same dataset for reform. However, the relative measures employed by Lora and Olivera (2004) and Tornell (1998) yield significant indicators for reform in 6 of 7 cases (see Section 4.1 for further discussion).

Concerning the varying outcomes of currency and inflation crises (Agnello *et al.*, 2015a, 2015b), the high correlation between the two variables gives cause for concern. The measures in question (both currency and inflation crises) refer to a dataset by Reinhart and Rogoff (2011) which identifies currency crises by means of an exchange rate depreciation of more than 15% per annum and inflation crises by means of a threshold of 20% inflation per annum. As Reinhart and Rogoff note, the correlation between the two variables is high and "currency clashes and inflation crises go hand in hand" (p. 1678). As discussed further below, the differing outcomes between currency and inflation crises might then be indicative of the difficulty to make use of the variables in question appropriately.

The influence of banking and debt crises on financial reform appears to be the only one that enjoys consensus across empirical studies. Four papers investigate this relationship, all of which find a significant relationship between the two. However, three of these papers use the same dataset to indicate financial reform (Abiad and Mody, 2005; Agnello *et al.*, 2015a, 2015b). What is more, the nature of the established relationships is not uniform. While Agnello *et al.* (2015a) find that fiscal pressure and constrained governmental resources trigger, or at least do not inhibit, the occurrence of reform, Hallerberg and Scartascini (2015) find debt and banking crises to be negatively related to financial reforms as "fiscal pressure to find more money quickly restricts the government’s ability to initiate fiscal reforms." (p. 71)

Evidence on the effect of government deficit crises, tested in three papers and yielding seven estimates, is uniformly insignificant. This may be indicative of to the “debt intolerance syndrome”, defined as the extreme duress emerging economies experience even at debt to GDP ratios which are considered as manageable by the standards of advanced countries (Reinhart and Rogoff, 2010).

Subsequently, emerging economies tend to default at comparably low debt to GDP ratios. The insignificant results for government deficit indicates that it does not appear to be the accumulation of debt per se which is significant for reform. Rather, weak institutional structures prevent governments from undertaking structural reforms to maintain market confidence and, with it, manageable interest rates. Only when governments eventually default and provoke a debt or banking crisis does the effect of debt accumulation appear to become relevant for reform. However, there exists no explicit empirical investigation of this phenomenon to our knowledge.

Privatization, labor and product market reforms give rise to contradictory results. Agnello *et al.* (2015b), Galasso (2014), Høj, Galasso, Nicoletti, and Dang (2006) and Campos *et al.* (2010) find the effect of economic crises on labor market reform insignificant, whereas Lora and Olivera (2004) find that a large drop in income per capita facilitates the adoption of labor market reform within the Latin American context. In the case of product market reform, both Agnello *et al.* (2015b), and Galasso (2014) fail to identify any significant crisis measure, while Høj *et al.* (2006) conclude that economic conditions are indeed significant for the adoption of product market reform, but in a positive direction. They seem to occur in times of economic prosperity rather than in times of crisis.

Table 3-2: Overview of established relationships between crisis and reform measures in empirical models on the crisis hypothesis

Crises	Inflation		Currency		Economic		Banking		Debt		Government Deficit		Employment		Political	
Reform	+	-	+	-	+	-	+	-	+	-	+	-	+	-	+	-
Financial	Agnello (2015a), Agnello (2015b)	Abiad (2005), Lora (2004)	Agnello (2015a)	Agnello (2015b)	Agnello (2015b), Galasso (2014), Waelti (2015)	Abiad (2005), Brooks (2007), Lora (2004),	Abiad (2005), Agnello (2015a), Agnello (2015b), Hallerberg (2015)		Abiad (2005)***, Agnello (2015a), Agnello (2015b), Hallerberg (2015)			Lora (2004)				
Labor Market	Lora (2004)	Agnello (2015b)		Agnello (2015b)	Lora (2004)	Agnello (2015b), Campos (2010), Galasso (2014), Høj (2006)		Agnello (2015b)		Agnello (2015b)		Lora (2004)	Høj (2006)		Campos (2010)	
Product Market		Agnello (2015b)		Agnello (2015b)	Høj (2006)	Agnello (2015b), Galasso (2014)		Agnello (2015b)		Agnello (2015b)				Høj (2006)		
Economic Liberalization	Pitlik (2003)				Pitlik (2003)											
Privatization	Banjeree (2004), Roberts (2012)**	Lora (2004)			Banjeree* (2004), Campos (1996), Galasso (2014), Lora (2004)	Roberts (2012)						Banjeree (2004), Lora (2004), Roberts (2012)				
Trade	Agnello (2015b), Brooks (2007), Tornell (1998)	Lora (2004)		Agnello (2015b)	Agnello (2015b), Lora (2004), Tornell (1998)	Brooks (2007), Campos (2010)		Agnello (2015b)		Agnello (2015b)		Lora (2004)			Campos (2010), Tornell (1998)	
Tax	Lora (2004)				Lora (2004)							Lora (2004)				
Health Care					Wiese (2014)				Wiese (2014)				Wiese (2014)			

Legend: '+': significant relationship; '-': insignificant relationship; '*': Only timing; '**': Relation negative and only for developed countries; '***': Classified as "Balance-of-Payment Crisis" in paper; Parameter of "Economic Crises" comprises indicators on GDP growth, output gap, income per capita. Debt Crises referring to outright debt default, an international rescue, or interest rates on long-term gov' bonds. Gov' Deficit Crises referring to negative gov' budget balance. Name of first author displayed only to conserve space.

Roberts and Saeed (2012) draw a similar conclusion in the case of privatization. While economic conditions appear to have a limited influence, if any, privatization seems more likely to be fulfilled in prosperous times than to be triggered by crises. Galasso (2014) also finds privatization less likely to occur while a country is experiencing an economic crisis. However, in an analysis of 24 distinct case studies, Campos and Esfahani (1996) find that in some 80% of the cases privatizations were preceded by economic downturns (not necessarily crises). Banerjee and Munger (2004) too find that none of the privatization initiatives they investigate up to 1999 were implemented without having been driven by a serious economic crisis. They find inflation in particular to have a significant effect on timing and intensity of privatization, which they conclude to be much more crisis-driven rather than attributable to long-term economic planning. In a similar vein, Lora and Olivera (2004) find privatization to be triggered by a drop in income per capita.

The remainder of the chapter presents a discussion of methodological issues that inform the outcomes and interpretation of empirical testing of the crisis hypothesis. We argue that conceptual compromises relating to the identification of crisis in terms of fixed thresholds as well as the use of indices to operationalize reform contribute to the inconclusive results in the papers reviewed. Moreover, the specific political and institutional setting for reform imposes distinct political challenges for different reform agendas. This makes a meaningful delineation of factors for political mediation in large cross-country datasets difficult.

3.4. Methodological Operationalization of the Crisis Hypothesis – Compromises and Limitations

This section discusses conceptual compromises in the operationalization of the crisis hypothesis. These compromises affect the core of the hypothesis, namely the perception of what constitutes crisis, reform and how the associated costs and benefits are perceived within the process of political mediation. The section argues that the way in which crises and reforms are characterized largely determines the operationalization and, consequently, the meaningfulness of results and interpretations.

The difficulties inherent in empirical testing of the hypothesis crisis are neatly illustrated by the debate surrounding the study of Abiad and Mody (2005). Using a dataset comprising of 35 countries from 1973 to 1996, Abiad and Mody investigate which types of crises induce governments to undertake financial sector reform by using an ordered logit regression technique. The types of crises they investigate include balance of payment and banking crises, recessions and high inflation. To indicate financial liberalization, they introduce an index comprising of six parameters, including interest rate controls and operational regulations. Their findings indicate that while balance of payments crises hasten reform, banking crises set liberalization back. However, Huang (2009) challenges the robustness of the Abiad and Mody empirical modelling specification. He incorporates a new explanatory variable, 'institutional quality', into the analysis which he finds to have a significant negative effect on liberalization. Moreover, he introduces a common correlated effect pooled regression approach which allows for the possibility of error dependence across countries and concludes that a number of the findings by Abiad and Mody are not robust to error dependence across time and space. Zandberg, de Haan, and Elhorst (2012) in turn challenge the robustness of Huang's approach. By replicating the analysis with an updated and expanded data base (62 countries from 1975 to 2005), they find the effect of 'institutional quality' to diminish and become statistically insignificant.

Identification of Crises

Table 3-3 displays the range of crisis categories and their distribution within the papers under consideration. The overview distinguishes between indication by fixed thresholds and the utilization of raw data. The categories of crises refer to the classification deployed in Table 3-1 and 3-2 above. The majority of studies refer to crises classified in terms of financial and fiscal measures (such as inflation, and government debt), or negative GDP growth as an indicator for economic crises (27 out of a total of 34). Only eight measures provide alternative definitions of crisis: two instances each of political and employment crisis, as well as four instances of economic crises, which are indicated by a large output gap (Høj *et al.*, 2006; Galasso, 2014) and by a drop in real income per capita (Lora and Olivera, 2004; Tornell, 1998).

Table 3-3: Overview of crisis indicators and their measurement method in empirical models on the crisis hypothesis

Crises	Total	Economic	Inflation	Banking	Debt	Gov. Deficit	Employment	Political
Threshold	**32**	10	8	4	5	1	2	2
Raw Data	**12**	4	5	0	0	3	0	0
Total	**44**	14	13	4	5	4	2	2

Measuring crises in terms of fixed thresholds of the deterioration of economic variables is a widespread practice in the literature on economic crises in general (see Reinhart and Rogoff, 2011; Scheemaekere *et al.*, 2015). As Table 3 indicates, it has found its way into most empirical examinations of the crisis hypothesis as well. The basic challenge for the indication of crisis by fixed thresholds is to decide what level of deterioration constitutes a 'crisis'.

Identifying crises via fixed thresholds has intuitive appeal as it suggests that crises share common features. However, this assumption only holds if the underlying variables responsible for the crisis were driven by an objective and invariant probability distribution (Scheemaekere, Oosterlinck and Szafarz, 2015). Moreover, measurement by thresholds is prone to be tailored to fit recent crisis episodes and respective discourses (ibid.). As mentioned above, Agnello *et al.* (2015a, 2015b), for instance, follow Reinhart and Rogoff (2011) in defining an inflation crisis episode as a period marked by an inflation rate of more than 20% per year, while Abiad and Mody (2005) refer to a threshold of 50%. There is little guidance to assess which level of inflation would be more correct to identify a crisis. And while robustness checks can address this problem they can do so only to a certain extent. Such distinctions lack theoretical derivation Scheemaekere *et al.* (2015) and entail the implicit assumption that there exists a point after which a bad situation cannot deteriorate even further in that it would change the political response to the crisis.

As discussed in section 3-2, the point at which the deterioration of a state variable is perceived a crisis varies among countries, regions, and times. The interpretation of economic crises in terms of its roots, intensity and possible resolutions is – at least to some extent – in the 'eye of the beholder' and "significantly shaped by the way key political actors interpret and react to these economic challenges" (Pop-Eleches, 2008, p. 1204). As a consequence, any statement that a given set of conditions became 'bad enough' in that they force political actors to act on reform is normative, leaving crisis measurement by thresholds exposed to subjectivity and difficult to employ in empirical analyses.

Threshold-based definitions of crises then touch upon a conceptual tenet of the crisis hypothesis by implying a somehow uniform perception across countries of a specific situation that reaches a certain degree of "unacceptableness" within groups of social and political actors. Fixed thresholds, by virtue of focusing on only one 'true' parameter of a crisis, ignore "other key issues such as citizens' perception of and tolerance for economic hardships, which can vary across countries and times" (Corrales, 1998, p. 618). It is the perception within a given political, socioeconomic and cultural context that, initially, determines whether or not a situation is 'sufficiently severe' to warrant the label of crisis and, subsequently, translates this crisis recognition into the perception for the need of reform. Placing the emphasis on perceptions leads to a very different approach to defining a crisis: instead of asking 'when are economic *conditions* bad enough', it might be more expedient to ask 'what determines the *perception* of economic hardship to be severe enough' to cause policies to be perceived as having failed and being in need of change.

An alternative to fixed thresholds would be to use relative measures to indicate the change from previous levels of the variable in question. However, of the 19 empirical papers considered in this study, only two use relative measures rather than fixed thresholds to proxy crises (Lora and Olivera, 2004; Tornell, 1998). For Tornell, crises are marked by a sudden deterioration of macroeconomic and political variables and hence refer to a shock-situation rather than a continuous deterioration of state variables. An inflation crisis is marked by an increase of 125% with respect to the previous year for an inflation rate higher than 40% per year. Economic crises occur when the income per capita decreases by more than 18% relative to the previous year. Political crises occur if the alteration of an index that measures political change year on year exceeds a certain threshold. Lora and Olivera indicate economic crises using the gap between real income per capita at the beginning of a current period and its previous maximum level after 1970. While they proxy other types of crises by fixed thresholds, like inflation and government deficit crises, they find the relative measure to be the 'best measure' for crises and to trigger a range of reforms. These findings suggest the application of relative thresholds to be promising for future empirical models.

What is more, an identification of crises which seeks to emphasize varying perceptions of both the crisis itself and the need for reform across countries requires the consideration of regional and temporal idiosyncrasies of a given sample. While such perceptions may vary due to development status and geographical region, they can also differ significantly within individual countries of a given region (Krueger, 1993). Of the empirical studies in this area, however, only Campos *et al.*, (2010) explicitly distinguish between regions in their modelling approach. They investigate the effects of both economic and political crises by pooling their data across regions (100 countries from 1960 to 2000, differentiating between developed, African, Asian, Latin American, MENA, and transition countries). Their results display considerable heterogeneity across these regions. They conclude "that the common procedure of pooling across countries in different regions may not be justified" (p.1687), which they find to be particularly relevant for the case of political crises. Other papers distinguish between "developed" and "developing", or OECD and non-OECD countries. Only three papers take a regional focus by explicitly investigating Latin American countries (Brooks and Kurtz, 2007; Hallerberg and Scartascini, 2015; Lora and Olivera, 2004).

Indication of Reform

The categorization of Naim (1995) provides a useful framework to assess the range of reform indicators utilized within the empirical studies under consideration here. Naim's classification distinguishes between two "stages" of reform. Stage 1 reforms refer to an amendment of more basic aspects of economic regulation, for which the effort to design and implement is comparably low. Such reforms can take the form of trade liberalization, fiscal adjustment and liberalization, or exchange controls. "Stage 2" reforms, in contrast, address significant institutional changes and intervene deeply into existing social structures. They require more institutional resources, a longer implementation period and are likely to create broader and more intense social resistance. Such reforms include, for example, labor or health care reforms (ibid.).

Table 3-4 displays an overview of the range of reform measures used in the papers under consideration here. The table shows that empirical studies predominantly focus on stage 1 reforms in the form of financial or trade reform. Industrial policies do not appear to have been investigated, although such policies are frequently used to tackle economic crises, particularly recessions (OECD, 2012).

Table 3-4: Overview of reform indicators in empirical models on the crisis hypothesis

Reform	Total	Financial	Privatization	Labor Market	Trade	Econ. Liberalization	Product Market	Health Care	Tax
Measures	**28**	8	4	5	5	1	3	1	1
Of which are indices	**23**	8	0	5	5	1	3	0	1

As in the case of crisis measurement, the methodology of reform measurement warrants further scrutiny in order to assess its implication for empirical testing of the crisis hypothesis. The remainder of this section discusses, firstly, the epistemology of reform indices to elucidate their interpretation in empirical modeling. The discussion points, secondly, to the time dimension of a reform process by highlighting the methodological challenge to account for both reform reversals and the correct affiliation of a reform to a specific crisis in the form of periodical averages.

Application of Reform Indices – Assessing What's Measured

Indication and assessment of reform is a difficult exercise. Comparability across countries is particularly challenging since reforms reflect the specific institutional background and legal system of a country (see Acemoglu *et al.*, 2005). In order to enable meaningful cross-country comparison of reform, reform indices found widespread acceptance in the literature (see Campos and Horváth, 2012; Wiese, 2014). Indices do not indicate reform directly by their incidence, but comprise a set of predefined indicators on the regulatory environment of a specific policy area. Reforms are approximated by the change of these indicators. For example, financial sector regulations can be depicted by the credit controls a country imposes, the regulation of the banking sector, or the restrictions on capital accounts (see Abiad and Mody, 2005). A score is subsequently assigned to each of the indicators to assess their relative level of regulation or liberalization, so that a change in a score can be interpreted as a policy change.

Despite their usefulness for cross-country comparisons, indices nevertheless tend to impede reliable assessments of reform determinants and processes (Campos and Horváth, 2012). A meta-analysis by Babecký and Campos (2011) illustrates the challenging application of reform indices. By reviewing 46 empirical studies on the impact of structural reforms on economic growth they find the t-values of more than 500 coefficients to follow a normal distribution with mean zero. One possible explanation they put forward is measurement error within the reform indicators, as "the existing measures are mostly subjective, difficult to replicate and tend not to capture reform reversals." (p.153)

Wiese (2014) addresses this issue and develops a methodology to avoid reliance on indices by distinguishing between *de jure* and *de facto* reform. He uses structural break filters to identify significant shifts in the financing of a specific sector from public to private and validates identified breaks by de jure evidence of reform. This procedure ensures that the identified structural breaks represent *de facto* reform, as they exert a statistically significant influence on economic data *and* are induced by actual policy changes. Only the joint-occurrence of structural breaks in economic data and a legislative action is considered a reform in his analysis. He applies the methodology to the case of health care privatization and finds high unemployment and debt crises to be significant triggers for reform of health care financing.

Apart from health-care reform in the contribution of Wiese, only the measurement of privatization does not avail of indices (Banerjee and Munger, 2004; Campos and Esfahani, 1996; Galasso, 2014; Lora and Olivera, 2004; Roberts and Saeed, 2012). All other reform measures within the papers reviewed indicate reform in terms of indices and either rely on aggregate measures that assess the general regulatory environment in relation to other countries (for example Abiad and Mody, 2005; Agnello *et al.*, 2015a; Pitlik and Wirth, 2003; Waelti, 2015) or the effective change in a regulative environment (for example Hallerberg and Scartascini, 2015; Tornell, 1998).

The difficulty in applying reform indices for the crisis hypothesis stems from their conceptual underpinning. A reform is characterized by 1) a positive change in the respective index and 2) not being reversed within a given number of years after the initial reform (see, for example, the Financial Liberalization Index by Abiad and Mody or the Economic Freedom of the World index (Gwartney, Lawson and Hall, 2015). However, this characterization of reform entails three challenges for empirical testing. Firstly, the researcher is required to make a normative statement about the nature and type of reform that is taken into account by describing reform as “effective for/against liberalization”. Secondly, some indices involve subjective judgement on the basis of observations from actors within a respective economy. Such indication constitutes a measure of perception rather than of actual change, which makes the measurement susceptible to exaggerate the implication of reform. Observers pay close attention to an environmental change when it occurs and might expect the impact of a reform to be greater than that which actually occurs (Kaufmann *et al.* 2011).

Lastly, a conceptual issue inherent in indices concerns the interpretation of empirical results. As discussed above, indices do not reflect instances of actual reform, but instead indicate effective change in a regulatory environment according to a set of fixed criteria. That way, the categories in which the criteria of an index are measured form a ‘grid’ that is applied to a certain policy area. As a common challenge of measurement bias, such a grid of categories is implicitly selective as to which reforms it includes. Reforms which reside within a given policy area, but would not directly fall within the specified categories or adhere to pre-set criteria would potentially fall through the grid. This form of measurement bias however does not only restrict the scope of an analysis to those identifiable reform measures. It also risks insufficiently capturing the diversity and complexity of reform initiatives and packages for the specific relationship that is investigated, since reforms are tailored answers to specific economic and political challenges. For instance, the effect of economic crises for reform is mainly tested in terms of product market reform, financial reform, or liberalization (see Table 3-2). However, a country's policy response to an economic crisis could potentially include additional measures, such as industrial policies, as an acknowledged measure to relieve crisis effects via government support for specific industries (Wade, 2010; OECD, 2012; Mazzucato, 2013). As industrial policies can be diverse in nature, it is not immediately clear to what extent they would be reflected in indices for economic regulation, such as product market reform or liberalization. They might hence partly 'fall through the grid' and subsequently leave a model with an incomplete reflection of the full political "reform answer" to a crisis.

These challenges are not problematic per se for empirical modelling but rather reflect the perspective taken by the researcher. However, they undermine the central component of the hypothesis, namely that *reform* follows crisis. Caution needs to be applied in order to avoid using the term reform interchangeably with specific aspects of economic regulation, such as liberalization or product market reform, as it conflates distinct phenomena.

The Dilemma of Periodical Averages – Accounting for Both Reversals and Correct Attribution of Reform

In order to prevent reform reversals from influencing the outcome of empirical analyses, the use of periodical averages of reform measures has become commonplace (for example Blanco and Grier, 2009; Campos *et al.*, 2010; de Haan *et al.*, 2009; Pitlik and Wirth, 2003). Periodical averages indicate the effective change of an index within a fixed period of time, often a five-year timespan. As the crisis hypothesis requires the consideration of three separate events, periodical averages introduce the methodological difficulty to find the appropriate time window. These events are, firstly, the occurrence of the crisis, secondly, the *de jure* issuing of a specific reform measure, and, lastly, the *de facto* institutional manifestation. Only when successfully implemented and sustained does reform eventually become measurable. There is usually a considerable time lag between each of these events as institutions can be quite rigid (Acemoglu, Johnson and Robinson, 2005) and as crises do not lend themselves to a designated set of policy proposals. Time is needed to evaluate options, draft proposals and convince political actors and interest groups of the need for change. As Drazen (2009) points out, over time interest groups gather more information about the relative political strengths of their counterparts, forcing weaker groups to make concessions. It is the duration of a crisis that prompts political actors to re-evaluate their position in terms of opposing or accepting reform.

As discussed above, the timespans between the events vary according to the type of reform that is being implemented. Stage 1 reform can be implemented rather quickly, while stage 2 reforms require a lot more institutional resources and hence time. Especially governments with constrained resources are thought to concentrate on stabilization measures that unfold their impact in the short term, while saving more resource intensive reform for better times. Indeed, crises might tend to delay rather than spur structural (stage 2) reform, a pattern that, for example, the OECD observes for structural reform after the 2008 crisis (OECD, 2012, p. 19). Pitlik and Wirth (2003) confirm this relationship empirically by finding a U-shaped relationship between growth crises and economic liberalization in the time dimension. They investigate reform activity contingent on three degrees of "severity" of a crisis and find that most reform efforts are undertaken in times of deep growth crises (recessions), followed by crisis-free periods. They find the least reform activity to be apparent in times of "medium" crisis.

Selecting an appropriate time-span for the construction of periodical averages therefore gives rise to a dilemma. While longer periods increase the likelihood to fully capture long-termed structural (stage 2) reforms that might respond to a crisis but require lengthy implementation, they reduce the likelihood that a reform is correctly attributed to a specific crisis event. Moreover, similar to the case of crisis measurement, the probability distribution across countries of which reform occurs at what point in time is not necessarily equal, since the perceptions of what constitutes an appropriate response to crisis varies among factors like available institutional resources, cultural attitudes, contagion effects, the ideology and experience of a government, the development status of the country, and regime type (see next section). Operationalizing these dependencies in empirical modelling requires reflection on how the political mediation of reform during crisis works.

Political Mediation of Reform During Crises

As discussed in section 3.2, the cause for delay in the adoption of reform can be understood as the conflict over the distribution of the cost of reform among social interest groups, which necessitates deteriorating economic conditions to be resolved. The resolution of such conflict, then, can be interpreted as the political mediation which enables reform (see Lora and Olivera, 2004; Williamson, 1994). A crisis measure that is found to trigger reform in an empirical setup says, by itself, little about the determinants of political mediation. Understanding the causality between crisis and reform thus requires understanding the political mediation between them.

There exists a variety of theoretical explanations that aim at ascertaining which political factors impact the likelihood of reform during economic crises (see Williamson and Haggard (1994) for a comprehensive discussion). For example, a country's participation in IMF programs is thought to facilitate the adoption of reform, in particular economic and financial liberalization, as a government can shift the blame for unpopular reform on the IMF (for example Biglaiser and DeRouen, 2011). Also, a government which just entered office is expected to face relatively fewer constraints to initiate reform as it enjoys greater legitimacy than its predecessor (commonly referred to as "honeymoon period"[9], see Williamson and Haggard, 1994; Haggard and Webb, 1994). A higher degree of institutional quality (Acemoglu, Johnson and Robinson, 2005) and the right-wing partisanship of a government (Pop-Eleches, 2008) are thought to facilitate reform, specifically liberalization as well. On the other hand, a high degree of fractionalization (also referred to as 'fragmentation') of a country's parliament is expected to inhibit the adoption of reform as this makes a coalition rule more likely and increases the difficulty of making compromises (Haggard and Webb, 1994).

Table 3-5 displays the political parameters employed in the literature that are thought to mediate the reform process during crises. Of the 19 papers reviewed, 14 utilize political variables, mostly for the fractionalization of the parliament, and the time period in which the government in question is in office. Two studies explicitly include a dimension of political crisis in their models (Tornell, 1998; Campos, Hsiao and Nugent, 2010), which both find to have significant influence on the occurrence of reform. Campos and Esfahani (1996) fail to establish a significant relationship between variables for political crisis and privatization due to the difficulty "to identify periods of political downturn" (p. 457). And while the partisanship of the political leadership has received much attention, the background of the political leadership has not been featured in these empirical studies as a potential influencing factor for policy responses. This is notable since the background of political leaders has been found to be a significant factor for, for instance, the level of a country's budget deficit (Hayo and Neumeier, 2016), the willingness to adopt reforms, specifically liberalization (Dreher *et al.*, 2009), and its preferences with regard to monetary policy (Göhlmann and Vaubel, 2007). Investigating whether the background of the political leadership makes reform more or less likely in times of crisis might open up a promising area of research.

The range of theoretical explanations for political mediation make empirical modelling of political mediation for reform during crises complex. The results emanating from the literature under consideration here illustrate this difficulty. The overview displays the inconclusive results arising from some of the most widely used variables, namely IMF involvement, government partisanship, a new government in office, and the fractionalization of a parliament. Some results for IMF involvement, for example, depart from much of the established literature by yielding an insignificant, or only weakly significant relationship between IMF programs and reform (Alesina *et al.*, 2006;

[9] The honeymoon hypothesis states that governments face relatively fewer constraints to implement reform at the beginning of their term in office as they enjoy higher credibility and legitimacy than their predecessor (Haggard and Webb, 1994). Moreover, as Pinea (1994) suggests, reforms make things worse before they improve them. Reformist governments hence want to launch reform processes early in their legislature to be able to take corrective measures during their term in office.

Hallerberg and Scartascini, 2015; Lora and Olivera, 2004). Brooks and Kurtz (2007) and Drazen and Easterly (2001) even find the relationship to be inverse, the former finding higher levels of IMF involvement to lead to lower levels of trade liberalization for the case of Latin American countries, the latter finding foreign aid to delay reform.

The remainder of this section scrutinizes the operationalization of political mediation for the crisis hypothesis. The section concludes with a discussion of aspects that facilitate an accurate characterization of political mediation for empirical analysis.

Identifying the Trigger for Reform: Economic Crises or Political Instability?

Economic crises tend to induce political instability which affects a governments' ability to reform. More precisely, they can create political conditions in which resistance to necessary reform by non-cooperative, opportunistic behavior of social and political interest groups eventually delays rather than facilitates the adaptation of reforms (Alesina *et al.*, 2006; Corrales, 1998; Edwards and Steiner, 2000; Hugh-Jones, 2014; Williamson and Haggard, 1994). Sachs (1994) neatly captures this phenomenon: "You cannot think straight in the midst of hyperinflation." (p. 507)

Political instability, then, introduces an intermediate step into the causal connection of crises and reform which requires consideration in empirical modelling. Gasiorowskj (1995) finds the occurrence of economic crises, particularly inflation crises, to trigger democratic breakdown and to facilitate democratic transition, albeit with time-varying effects. In contrast, political instability (rather than outright regime change) has not been found to be influenced by macroeconomic variables, as Blanco and Grier (2009) conclude by examining Latin American countries from 1971 to 2000. Bussiere and Mulder (2000) find political instability to have a strong impact on economic vulnerability, particularly for countries with weak economic fundamentals and low reserves. Economic vulnerability increases in the time during and subsequent to an election, as well as when the outcome of an election produces an unstable government. A similar conclusion is drawn by Gallo, Stegmann, and Steagall (2006) in stating that financial crises are more likely to be induced by political and institutional problems rather than economic ones. Investigating the example of Argentina following the 2001 crisis, they argue that the breakdown of "democratic institutions, government transparency, regulatory oversight or the rule of law [increases] the likelihood that politicians will implement unsustainable economic policies" (p. 193). Political instability thus appears to become more likely when the delay in reaching a consensus on reform aggravates an underlying economic crisis.

Table 3-5: Overview of political and institutional measures in empirical models on the crisis hypothesis

	IMF Involvement	**Institutional Quality**	**Government Partisanship**	**Gini Coefficient**	**Parliamentary Fractionalization (Fragmentation)**	**Time in Office (Honeymoon Period)**	**Democracy Index**	**Political Constraints for Executive**	**Other**
Abiad and Mody (2005)	+		-						-
Agnello *et al.* (2015a)	+	+							
Agnello *et al.* (2015b)				+	-				
Alesina *et al.* (2006)	**(-)**				+	+		+	-; +; +; +
Banerjee and Munger (2004)		+	+		+	-	+		
Brooks and Kurtz (2007)	-		+		+				
Galasso (2014)			+		+	-			
Lora and Olivera (2004)	-			-	-				
Hallerberg and Scartascini (2015)	-		-			-			-
Høj *et al.* (2006)			**(+)**			+			
Pitlik and Wirth (2003)					-		+	+	-
Roberts and Saeed (2012)		+	+			**(-)**			
Waelti (2015)	+		+			-	-		
Wiese (2014)			-		-	-			

Legend: '+': Significant relationship; '-': Insignificant relationship; '( )': conditional results

Heightened political instability during economic crises might then alter the means by which reform is introduced and sustained in response to crises. In consequence, not reflecting political instability in empirical modelling hampers the delineation of two distinct causal effects, namely whether it is a crisis itself that prompts politicians to implement reform, or whether it is the effect of political instability in the shape of a new government coming to power. Alesina *et al.* (1996), for example, find that a government, which is already unstable and has experienced recent changes, faces an increased likelihood of further governmental change thereafter. When political instability tends to rise during economic crises, then, the likelihood increases of a new government entering office during or shortly after a crisis period. If a measure for crises is therefore found to beget reform it might not be the crisis itself that forces political actors to submit to proposed reforms. Instead, a new reformist government might have come into power within the same time-period that averages reform without the researcher reflecting it in her/his empirical model.

In such setting, a new government may be viewed as the vehicle, as the form of political mediation under which post-crisis reform occurs. However, not considering governmental change in empirical analysis conflates two distinct arguments when interpreting the underlying causes for reform. In the game-theoretic models introduced in Section 2, reform occurs because interest groups realize that continued inertia will be costlier for them than conceding to bear a disproportionate cost of reform. The cost of inertia rises due to economic deterioration (as for example in Alesina and Drazen, 1991), and/or the fear of political disenfranchisement (as for example in Ranciere and Tornell, 2015), caused by the fear of a possible *future* reshuffling of power among interest groups. However, the honeymoon hypothesis is focused on the idea that power among interest groups has *already* been reshuffled, in that resistance to a new government has been reduced. Moreover, the honeymoon hypothesis does not necessarily involve deteriorating economic conditions. Thus, not reflecting political instability in empirical analysis hampers the ability of empirical analysis to ascertain the actual underlying cause for reform.

The empirical results of Campos *et al.* (2010) and Tornell (1998) can be interpreted as supporting such conceptual considerations. Campos *et al.* find that political crises can be more powerful than economic ones in realigning political forces and reducing resistance to reform. Their measure for political crisis includes three determinants, firstly, an index of social and political stability by accounting for the number of revolutions and political assassinations, secondly, the regime durability as a measure for the absence of crisis, and thirdly, the degree of political fractionalization. They find political crises to be a more important trigger of structural reforms than economic ones, while the latter ones appear to rather inhibit structural reforms instead of facilitating them. Tornell constructs an index consisting of nine measures of political authority patterns that indicate the degree of autocracy or democracy in a country. He finds the joint occurrence of political *and* economic crises to have a significantly higher probability (60%) to induce reform than the occurrence of economic crises alone (27%).

As in the case of crisis measurement, the establishment of comparable measures for political crisis is challenging, as differing perceptions of acceptable levels of political instability vary among countries, regions, or regime type. A measure of political crisis can be operationalized in many different ways. And indeed, there seems to be no consensus in the literature to address this challenge, which might have contributed to the scarce utilization of political crisis measures in the empirical literature on the crisis hypothesis (see Campos and Esfahani, 1996; Campos *et al.*, 2010). Nonetheless, the results of Tornell and Campos *et al.* highlight the importance of making the link between economic crisis and political instability a central component of empirical analysis.

Modelling Political Mediation – Identification of Relevant Parameters

Understanding how best to identify and interpret relevant parameters for political mediation requires an assessment of what political mediation during crises entails. Political mediation is determined by the political risks and uncertainties associated with a reform, which in turn depends on its (perceived) short and long term costs (see Brooks and Kurtz, 2007; Fernandez and Rodrik, 1991). The perception of what reform implies in terms of economic and political costs is then influenced by contextual determinants, such as the national and international economic environment, the type of crisis and reform, regional contagion effects, and the specific qualities of domestic institutions (Brooks and Kurtz, 2007). This context-dependency may lead to political factors, such as government partisanship or the fractionalization of a parliament, to have country-specific effects. These effects vary particularly across the development status of a country and its institutional background and potentially alter the manner in which political mediation for reform is thought to work in crisis-free times (ibid., Pop-Eleches, 2008). Such changing patterns may contribute to explaining the inconclusive results for political variables in Table 3-5. Setting up empirical modelling for the crisis hypothesis then may benefit from specifically reflecting the institutional, political and economic context of the countries or regions in question.

A widely discussed and contentious political factor is the partisanship of a government, which neatly exemplifies how the broader economic context affects the manner in which political factors influence policy responses during crises. The political partisanship describes the ideological orientation of a government, generally in terms of being left-wing (socialist), right-wing (conservative), or centrist, as within the widely used Database of Political Institutions (Cruz, Keefer, and Scartascini, 2016). Pop-Eleches (2008) argues that policy responses to crises reflect a government's partisan interpretation of a crisis. The partisan interpretation of a crisis in terms of its roots and possible solutions in turn depends largely on the nature of the crisis and the broader regional and international environment. Pop-Eleches finds that “certain types of crises, such as liquidity shortfalls, elicit similar [policy] responses across the ideological spectrum and regional contexts”, while others, such as debt crises, have a regional dependency and are “more prone to divergent ideological interpretations.” (p. 1179)

The influence of the partisanship of the government, then, becomes a contentious determinant of reform. Under ‘normal’ circumstances and in a ‘crisis-free’ economic environment, right-wing parties are found to be more prone to adopt policy in favor of liberalization (at least in a non-fractionalized setting) (Brooks and Kurtz, 2007), and privatization (Banerjee and Munger, 2004; Roberts and Saeed, 2012). Left-wing parties are thought to be more likely to adopt unconventional alternatives to liberalization measures, as they have deeper connections to organized labor which makes them more susceptible to short-term economic backlashes. During crises, however, Galasso (2014) finds political responses to depart from the established positions political groups take in ‘crisis-free’ times. While he finds left-wing parties to privatize more (as they might learn about the true cost of non-competitive regulation only during crisis and have more credibility to sell it to the electorate), right-wing parties in a more fractionalized setting are found to promote financial market regulation instead of liberalization (in an attempt to avoid being blamed as ultra-liberal and to suffer electoral backlashes). That way, the inclusion of a variable representing government partisanship in a large cross-country dataset might introduce causal heterogeneity due to the dependence on the regional context (see Pop-Eleches, 2008). In turn, as the manner in which government partisanship influences post-crisis reform can vary across regions, the investigation of a specific regional context, either singular or in a comparative approach, facilitates empirical analysis to elicit the underlying determinants for political mediation.

A further determinant influencing political mediation is the time-dynamic of environmental influences, such as contagion effects and the support of a specific school of policy ideals. The most prominent school of thought in this regard might have been the Washington Consensus, whose policy recommendations over time influenced the acceptance of economic liberalization among political and social actors in developing countries (Rodrik, 2006). In Latin America, for example, the 1980s debt crisis has been regarded as a ‘watershed’ in the support and adoption of economic liberalization over protectionist policy (for example Edwards, 1995). Seen in this light, the measurement of liberalization efforts in Latin America prior to that timeframe can be regarded as somewhat irrelevant. Hence, the time-span within which a given region is analyzed requires careful consideration in order to account for time-dynamic effects relevant to specific policy developments.

3.5. Concluding Remarks and Vistas of Future Research

This chapter argues that well-crafted empirical analysis of the crisis hypothesis can enhance our understanding of how economic crises influence political dynamics in bringing about reform. Although the hypothesis has reached a status of "conventional wisdom" in the eyes of many (Tommasi and Velasco, 1996, p. 197), the underlying mechanism that links crisis and reform still remains to be fully understood. We emphasize the role of social perceptions of both crises and the costs of subsequent reform in determining how political mediation of reform during crises hinders or promotes the adoption of reform. Such social perceptions consequently require reflection in the operationalization of the key concepts of the hypothesis, namely crisis, reform and the political mediation of reform during crisis.

In scrutinizing the operationalization of the hypothesis, we argue that it is most notably the identification of crises by fixed thresholds that undermines a central conceptual element of the hypothesis: social perception. It is the perception of the need of policy change among social interest groups that triggers reform, not merely the incidence of crisis (see Harberger, 1993). Fixed thresholds imply that there is a point after which a bad situation cannot deteriorate further in that it changes the political response that follows. However, this assumption is difficult to justify in heterogeneous cross-country datasets, as perceptions of what constitutes a crisis may be conditional on a given nation's institutional and cultural background. What is more, constructing indicators of reform based on periodical averages, which indicate the effective change of an index on reform within a fixed period of time, introduces a dilemma in terms of accounting for both reform reversals and the attribution of reforms to a specific crisis. Finally, taking into account the political factors that characterize prevalent political instability and political mediation would allow for the identification of the underlying causes of reform in response to crises. Political mediation of reform is moreover influenced by the broader economic and institutional context. As discussed above via the example of governmental partisanship, such contextual determinants potentially alter the manner in which political mediation for reform is thought to work in crisis-free times.

The survey of empirical evidence presented in this chapter supports the findings of recent literature that the type of crisis has a distinct impact on the type of reform that follows (Hallerberg and Scartascini, 2015; Waelti, 2015; Wiese, 2014). In particular, banking and debt crises appear to trigger the incidence of financial reform, while government deficit crises do not. Our analysis finds the empirical evidence for many of the most widely discussed crisis-reform links (such as inflation crises to financial reform) to be inconclusive and, therefore, to be weak in terms of predictive power.

In the light of the discussion in this chapter, the question of whether and how crises induce reform appears to offer a range of promising vistas for future research. The 2008 financial crisis vividly illustrates both its contemporary relevance and the challenges that lie ahead in fully characterizing the mechanism that links crisis and reform. For example, industrial policies as a means to alleviate economic crises, particularly recessions, have received increased attention in recent years (see Aggarwal and Evenett, 2012; OECD, 2012; Rodrik, 2004; Wade, 2010). However, whether or not crises effectively spur industrial policies remains to be empirically investigated.

Moreover, the theoretical make-up of the crisis hypothesis has proven difficult to apply in the 2008 crisis context. Drazen (2009) argues that the interest groups involved in financial market lobbying might not have become weaker during the 2008 crisis, but stronger. Their expert knowledge of how to resolve the crisis would have been indispensable for policy makers to draft policy responses, which secured and strengthened their political influence. This consideration, however, runs counter to the theoretical models that underpin the hypothesis. These models, such as the war of attrition model by Alesina and Drazen, assume that the influence of interest groups opposing reform prior to a crisis, as the financial lobby did in the United States (see Roubini and Mihm, 2011), need to be weakened in order to enable reform. Further empirical and conceptual work might usefully seek to reconcile theory and observations in the aftermath of the 2008 crisis (see Drazen, 2009).

The crisis hypothesis' central tenet is based on extensive discussion of past crises-waves, particularly the Latin American debt-crises of the 1980s and early 90s (for example Edwards and Steiner, 2000; Edwards, 1995; Lora, 2001; Nelson, 1990; Teichman, 1997; Williamson, 1994). In the light of the valuable insights these contributions have provided, we advocate that future empirical analyses further develop this contextual approach based on exploring the experiences of specific world-regions. In particular, the application of the hypothesis within comparative regional approaches (see Basedau and Köllner, 2007) appears to be well suited to analyzing the crisis hypothesis. Comparative approaches facilitate a more detailed consideration of the political and institutional setting in the specific cultural, regional, and temporal context of the countries/regions in question (see Pop-Eleches, 2008). That way, they enable a more appropriate identification of crises and reform that takes into account social perceptions of both economic hardship and the cost of reform.

As I argue in more detail in chapter 6 of this thesis, constructivist interpretations of crises are potentially better suited than rationalist approaches to reflect such differing perceptions of economic hardship. In order to address the complexity of the political mediation of reform during crisis, qualitative or mixed method approaches (Starr, 2014), as well as case study evidence, might prove valuable in understanding the mechanisms that link crises and reform. The next two chapters will outline an alternative methodological approach to indicate reform based on legislation data, which enables a more nuanced investigation of political collaboration.

4. POLIYMAKING IN DATA POOR COUNTRIES – MEASURING THE LEBANESE POLITICAL AGENDA IN A NEW DATA SET

4.1. Introduction

Development economists and practitioners rely on an accurate understanding of policymaking processes in the drafting of policy recommendations and reform programs. As the preceding chapters discussed, there exist methodological challenges in the utilization of extant indices on reform which impede research efforts on policymaking. Moreover, many developing countries either collect or provide few comprehensive and comparable data sets on policymaking processes, which hampers assessments of the functioning and priorities of governmental institutions. Insights into the workings of the governments in countries in the Middle East and North Africa (MENA) are particularly limited despite the increased attention of scholars and practitioners following the Arab uprisings in 2011, which highlighted the pressing nature of governance issues in the region (OECD, 2013; World Bank, 2015; ESCWA, 2017; Mahmalat and Sumpf, 2018).

This chapter remedies this gap with a novel data set on legislative activity, designed to provide insights into patterns of political attention. It introduces a novel data set on legislative activity in Lebanon, which covers all important primary and secondary legislation between 1950 and 2016 issued by the Lebanese Parliament, the Council of Ministers, and ministries. The main advantage of this data is its availability: legislation must be made public in official governmental journals or similar outlets to become legally binding. This data is hence similarly available in, and the analytical approach adaptable to the context of other countries, including countries of the MENA region. That way, the creation of this data set ties in with the increasing scholarly attention on policymaking processes in the MENA region over the past decade. The data set is available upon request from the author. Moreover, it addresses the methodological challenges associated with reform indices identified before and opens avenues for a more in-depth exploration of political collaboration in the subsequent chapter.

The analysis in this chapter takes legislation as a measure of political attention and uses agenda-setting theory to identify issues that dominate governments' legislative agenda (Jones and Baumgartner, 2004, 2005; Jennings et al., 2011; John, Bevan and Jennings, 2011). The underlying intuition follows the attention-driven model of policy choice (Jones, 2001). Policymakers and bureaucrats are confronted with a constant stream of information about a wide variety of topics, from security and immigration to education and the economy (Jones and Baumgartner, 2005). This abundance of information requires prioritization in order to allow policymakers to concentrate and respond to the most pressing and important issues. The priorities a government identifies determine its political agenda, according to which it issues legislation (McCombs and Zhu, 1995; Kingdon, 2003; Peter and de Vreese, 2003; Jones and Baumgartner, 2004).

A political agenda, then, is the set of issues that receive serious attention from policymakers at any given time (Kingdon, 2003, p. 3). The main concept in this definition is the "attention" policymakers pay, which puts an issue on the agenda when policymakers prioritize an issue and elevate its importance relative to others. Defining and constructing a measure of attention is, therefore, the key methodological challenge to assess political priorities over time.

The chapter follows the approach first outlined by Baumgartner and Jones (1993) to indicate attention by measuring the occurrence of issues in policy texts and documents. The number of references to issues in these texts serves as an indicator of the importance of an issue for a governments' agenda. This analysis takes both primary legislation (laws) and secondary legislation (decrees, resolutions, and other items) as a measure of political attention and discusses several advantages and limitations of this approach.

This paper contributes to the study of agenda-setting by addressing one of its key methodological challenges: Since each legislative text deals with only one issue, the coding happens at the document level. This procedure assigns one issue category to each legislative text, regardless of its type or scope. For example, a law that introduces a comprehensive change in a tax code, as well as a resolution that provides a simple trade license for a specific firm or product, would both equally count as one observation in two different policy areas. That way, however, the coding cannot introduce conceptual distinctions between documents of major importance. The tax law has most likely demanded a significantly higher degree of attention from policymakers on different levels of government than the issuance of the trade license has. The challenge, therefore, is to introduce a conceptual distinction between observations that have a minor or major importance for the study of attention, which would otherwise have equal weight within a data set.

A widely cited reference to address this issue is the Congressional Bills Project (Adler and Wilkerson, 2017), which provides a database of bills introduced into the United States House and Senate. Their database offers a filter for "important" bills, which excludes those bills that relate to issues of minor importance, such as the transfer of lands or renaming of buildings. While making a major contribution, the authors of the Congressional Bills Project note that this approach might not be sufficient to identify all documents of minor importance across all policy areas. Moreover, their methodology applies to the context of the United States and must be adapted to the legal context of other countries.

The data set introduced in the present paper addresses this challenge by taking a different approach than that taken by Adler and Wilkerson (2017). It filters out texts of minor importance and includes only those legislative texts whose ‘legal value’ was confirmed by legal experts and therefore bear political and legal relevance. Of all primary and secondary legislation published in the official governmental journal, the Lebanese Official Gazette, the data set includes those texts that lawyers and legal practitioners deem to be of relevance for legal practice (see section 4.3). This approach reduces selection bias by shifting the task of identifying important legislative texts from the researcher to legal experts. In this way, the filtering goes beyond the application of fixed identification criteria, excludes irrelevant legislative texts equally across all policy areas and includes only those texts that are of relevance for the study of political attention.

Lebanon has been confronted with a particularly diverse array of pressing issues in recent decades, including civil war (1975-1989), financial crises and hyperinflation (1987-1994), looming debt crises (2000-2006), political instability (2005, 2008), and the repercussions of the Syrian crisis (2011-2018). Much of the literature analyzes the political responses to these challenges from a perspective of sectarianism and fractionalization as the Lebanese polity is organized in a consociational power-sharing agreement (Makdisi and Marktanner, 2009; Salamey, 2014; Salloukh et al., 2015; Karam, 2017). This arrangement includes a large number of formal and informal veto players, which tends to inhibit legislation pertaining to nationwide issues (Mahmalat and Curran, 2019). However, as this chapter will show, there exists a significant variation of legislative activity over time and across policy areas.

The analysis offers – for the first time – a comprehensive, quantitative assessment of political agenda-setting in Lebanon. Lebanese legislative institutions provide very little data on policymaking processes, such as voting records or meeting agendas of committees, either due to missing statistical data collection or lack of transparency, which prevented the consolidation of available data in the past (LCPS, 2018). Much of the literature on the Lebanese political economy therefore relies on descriptive analyses and qualitative approaches (Gaspard, 2004; Makdisi, 2004; Dibeh, 2005; Salamey, 2014; Salloukh et al., 2015; Hermez, 2017). The paper and data set complement efforts to gain insights into the workings of Lebanese governmental institutions and contribute to our understanding of the political economy in Lebanon.

The chapter illustrates the use and content of the data set by presenting four examples: 1) agenda diversity across all major policy areas, 2) patterns of political attention after the end of the civil war in 1990 until 2016, 3) the political agenda before and after the Paris I-III donor conferences, and 4) comparison of the political agenda in times of political “gridlock” (Clinton and Lapinski, 2006), 2007 and 2014. The analysis pays particular attention to legislation related to developmental issues in the policy areas education, health, environment, transport, industry, electricity, and water.

Two findings are highlighted in the discussion. First, legislative activity varies greatly among policy areas and over time. Even in times during which institutional capacities were severely impaired, such as the final years of the civil war (1975-1989), or in periods of political gridlock, during which either a caretaker Government was in place or governmental institutions could not convene, Lebanese policymakers enacted a number of important legislations.

Second, the Lebanese legislative agenda has been dominated by issues related to finance, the economy, and property and real estate, while developmental issues have been relatively underrepresented. The results tie into analyses on the Lebanese political economy of reform which posit that economic and social policy in Lebanon is dominated by an ideology of "laissez-faire" (Gaspard, 2004; Traboulsi, 2007). Based on this ideology, the Lebanese Government maintains a "small state" by outsourcing important governmental services to the private sector in order to avoid unequal treatment among sectarian communities. Despite multifaceted developmental challenges (Garrote Sanchez, 2018), attention to developmental issues in the education, electricity, environment, health, industry, transportation, and water sectors is not only comparably low but decreases as agenda diversity declines. Legislation pertaining to issues of international affairs, finance, the economy, property, and real estate gained in attention over time and made up 87 percent of all important legislative documents issued by the Parliament and Council of Ministers in 2016.

The chapter proceeds as follows: section 4.2 introduces the theory of agenda-setting. Section 4.3 describes the data set and discusses the advantages and limitations of using legislation data as a measure of political attention. Section 4.4 illustrates the use of the data set by applying it to four examples. Section 4.5 concludes by outlining approaches for future research.

4.2. Agenda-Setting and Issue Diversity

Agenda-setting describes the process by which governments distribute their attention across issues. Following attention-driven models of policy choice, it is attention, rather than resources, which is scarce for processing the abundance of information in the policymaking process (Jones, 2001). As a common feature of all polities, policymakers have finite amounts of time and resources available to consider and process information. Agenda-setting, then, describes the process by which a government distributes its attention across issues. In other words, a political agenda is a governments' priority list.

The number of topics a government puts on its agenda determines its diversity. Agenda diversity describes the extent to which a government "shares its attention between various issues competing for the finite space available on the agenda" (Jennings et al., 2011, p. 1004). In a diverse agenda, a government shares its attention between a broad range of issues and offers opportunities for representing the interests of a wider set of political groups. In a narrow agenda, a government confines its attention to very few issues. As the attention to a particular issue might divert attention from other domains, every policy choice impacts the diversity of the political agenda as a whole (Jennings et al., 2011).

Agenda diversity also reflects the capacity of the government to attend to multiple issues and interests at the same time: the higher the diversity, the more institutional resources (such as time, lawyers and economists) a government allocates to a larger number of issues. If the diversity is low, resources are concentrated on the core functions of a government (which pertain to defense, international affairs, the economy, government operations, and the rule of law) (John, 2006; Jennings et al., 2011). While short-run increases in attention can cause sudden spikes in legislative activity in response to a certain issue (such as attention towards migration issues in the face of a refugee crisis), a government's agenda diversity should absorb shocks over time and maintain a long-run equilibrium (Jones and Baumgartner, 2005; Baumgartner et al., 2009).

Giving Meaning to Legislation Data

Considering the origin of a legislative text adds to the assessment of the political dynamics that shape an agenda. Firstly, legislation texts originating from different institutions, such as laws from the parliament and decrees from a president, involve a different set of actors and resources (such as lawyers and economists) (Kingdon, 2003; Jones and Baumgartner, 2005; Ziblatt, 2008). Secondly, governmental institutions vary in their capacities to share attention across issues. Higher layers of government, such as prime ministers, presidents or supreme courts, process fewer issues serially than line ministries and other institutions that provide mechanisms for the parallel processing of multiple issues (Jones, 1994; Kingdon, 2003). Analyzing a specific set of institutions thereby enables a researcher to draw conclusions about specific sets of processes, bureaucrats and policymakers.

In order to gain further insight into the political dynamics that shape an agenda, legislation needs to be understood as a multi-layered concept based on the requirements it takes to enact it. These requirements differ according to the voting requirements, institutional resources (such as lawyers and economists), as well as the number and nature of political actors and veto players involved in the policymaking process (Cox and McCubbins, 2001; Spiller and Tommasi, 2003). They increase the institutional friction to enact a given piece of legislation the higher its rank in a country's legal hierarchy (Chaqués-Bonafont, Palau and Baumgartner, 2015, pp. 19–45). The institutional friction of a given legislation depends on the decision costs involved, which rise when its elaboration and approval requires the attention and consent of a larger number of actors. In the case of Lebanon, there are three major types of legislative output: laws, decrees, and resolutions (table 4-1).

Table 4-1: Simplified description of Lebanese legal code (Sources: Lebanese Constitution, Dictionnaire du droit privé, and Glossaire de Vie Publique.)

Rank	Type of Legislation	Description	Issuing Body	Institutional Friction
1	Law	A supreme, general and impersonal legal rule, following the Parliament's deliberation and initiative. No law can be enacted if it has not been passed by the Parliament.	Parliament	High
2	Decree	Administrative orders taken by the President of the Republic, or the Council of Ministers according to the powers allocated by the Constitution and the Laws. No parliamentary approval necessary but limited in scope by applying the law.	Council of Ministers, President	Moderate
3	Resolution	Issuance of the Executive power, i.e., the Ministers or the administrative authorities, to which constitutional laws conferred regulatory power. Limited legal scope within the realm of existing legal frameworks.	Ministers	Low

These types of legislation differ in their scope of application. Laws require parliamentary approval and establish a generally applicable and impersonal rule. Decrees constitute administrative orders and decisions issued by either the Council of Ministers or the President. The scope of decrees is limited to the application of the law, rather than the establishment of independent, impersonal, and general rules.[10] Resolutions are decisions taken by ministers within existing legal frameworks and generally do not require the formal approval of the Parliament or the Council of Ministers.

The institutional friction to enact legislation increases with the number of political actors across parties and institutional resources that are involved in elaborating and approving a legislative text. Laws exhibit the highest institutional friction as these require most attention by lawyers and related staff as well as a majority vote of members of parliament and thereby a broad consensus among political parties. Decrees only need the Council of Ministers' or President's approval and therefore generally entail more moderate friction. Resolutions exhibit the lowest friction and are issued by ministers generally without formal voting procedures. That way, legislation that involves a high degree of consensus among political parties, such as laws, have a higher likelihood of being blocked

[10] Exceptions to this rule are legislative decrees, which have the status of ordinary laws. These decrees are issued by the Council of Ministers after having been granted the authority to do so by the parliament in rare and exceptional circumstances. Such decrees, however, have not been used since the late 1960's and are coded as decrees in this data set.

by veto players. Resolutions, on the other hand, can be enacted even in the absence of consensus among parties or the blockage of governmental institutions, such as the parliament.

4.3. Measuring Political Agendas with Legislation Data

The data set introduced in this paper is based on the Lebanese *Official Gazette*. The Gazette is a journal "issued by the 'Official Gazette Department' of the General Directorate of the Council of Ministers" and includes "the legislative and regulatory texts that govern the affairs of the country."[11] Thus, the Gazette is the official journal of the Lebanese Government where all primary and secondary legislative texts need to be published to take effect and become legally binding.

The data set has been retrieved from *Al-Mustachar*, a Lebanese law firm who provides an online archive for legislative documents.[12] *Al-Mustachar* employs a team of legal experts who developed a methodology to review the weekly publications of the *Official Gazette*. Based on a review of the legislation in the Gazette, it first transcribes and then republishes those legislative texts that these experts identify to be of relevance for the daily work of legal practitioners, such as lawmakers, judges, and lawyers. These experts include independent judges that base their decisions of which legislative texts to include into the archive on a texts' "legal value," that is, whether the text can be referenced in appeals and court cases. The review process filters out legislative texts that are usually irrelevant for appeals or court cases, such as laws that correct spelling mistakes, naturalizations of citizens, registrations of organizations, or the acceptance of donations and in-kind contributions. That way, the archive assumes an important function for practitioners by reducing the volume and complexity of the weekly *Official Gazette* publications to only those texts that are relevant for legal practice. Among legal practitioners of all professions both within courts and commercial law firms, the archive is a widely accepted and utilized reference.[13] This renders bias in the selection of texts unlikely as systematic neglect is easily verifiable by competitors and would threaten the reputation of the institution as a whole.[14]

This data set leverages the filter for legislation of "legal value" as it filters out mundane legislation that binds very little administrative, financial, and political resources. This approach has a crucial

[11] See the official webpages of the Lebanese Government and parliament: http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=31, http://www.loc.gov/law/help/legal-research-guide/lebanon.php [accessed October 2017].

[12] The archive can be accessed under: https://almustachar.com/ [accessed May 2018]

[13] While there are several firms that provide online archives for legislative documents, *Al-Mustachar* is the only one who provides filtering for relevant legislation. *Al-Mustachar* does not publish data on the number of subscriptions, however, the major role of their online archive in Lebanon has been verified by the author in several interviews and discussions with the CEO and employees from *Al-Mustachar* as well as other legal experts, such as CEO's and lawyers from competing law firms, researchers from Lebanese University's Faculty of Law and Political and Administrative Sciences, as well as experts from think thanks on legal and policy issues, in particular *The Legal Agenda*, and the *Lebanese Center for Policy Studies*.

[14] The author verified the content of the archive by reviewing the archive provided by the Official Gazette Department of the Lebanese Council of Ministers itself and tested dozens of samples for their accurate reflection in the archive of *Al-Mustachar*.

advantage for the study of political attention: the criteria for the identification of what makes legislation relevant applies to all policy areas equally and is consistent over time. Since experts define the criteria for exclusion and inclusion of texts, the filtering does not risk being biased by limitations of legal knowledge or normative assessments of the researcher.

Advantages and Limitations

Legislation data is not the only method to measure political agendas. However, the approach has several advantages over alternative data collection strategies, such as text analyses of executive speeches, interviews, or surveys. First, using a standardized coding scheme to categorize the legislation makes the agenda comparable over time, across topics and institutional origins, such as a Parliament, Council of Ministers, or ministries (Alexandrova et al., 2014). Thereby, it enables a researcher to construct political agendas in retrospect and to 'zoom in' on specific topics and times. The attention to specific issues, such as to the environment or reconstruction, can be traced over time and compared across governments.

Second, the approach enables an analysis of the relative attention across all issues on the political agenda, independent from election times and any institutional calendar. Interviews, surveys, and executive speeches are much less conducive in this regard. Respondents to interviews or surveys are usually unable to estimate attention outside their own area of expertise and activity (Alexandrova et al., 2014). What is more, executive speeches do not necessarily reflect the priorities a government eventually pursues. Lastly, by combining the data with other sources, such as macroeconomic or qualitative data, the data set enables an analysis of the conditions under which certain topics become priorities (Jones, Sulkin and Larsen, 2003), or under which the characteristics of a setup of actors, such as their degree of fractionalization or polarization, impedes or facilitates policymaking (Mahmalat and Curran, 2019).

Nevertheless, the approach has limitations. Firstly, the data set only reflects legislation that eventually made it into the Gazette and has been successfully agreed and voted upon. The data does not reflect meeting agendas of political institutions, that is, it does not reflect what the policymakers discussed in the first place and how much time and resources they devoted to addressing specific issues. Secondly, as the data reflects the outcome of a political bargain over legislation rather than the process of doing so, the data set cannot indicate the policy positions of actors during the negotiations. Lastly, an assessment of the implementation of the legislation – once enacted – requires additional data sources.

Data Set Properties

In total, the data set includes 15,112 observations over 67 years from 1950 to 2016. As each document deals with a single issue, the coding is done on the document level so that each legislative text, such as a law, a decree, or resolution, constitutes one observation (Jones and Baumgartner, 2005). The data set distinguishes between 33 policy areas of legislation. These areas are defined by the Official Gazette department and structure the printed version of the Gazette. These policy areas pertain to the prerogatives of ministries and other authorized legislative entities, such as the Central Bank of Lebanon, in that a text falls into a specific policy area when it is signed by a respective minister or authority. The allocation of texts to policy areas hence follows a criterion that defines the document itself, i.e., the principal minister who developed and signed a document, rather than being subject to manual assessments based on codebooks.

While the composition of ministries changed over time, the categorization offered by *Al Mustachar* remained the same and maintained the structure and policy areas that the Gazette adopted post-independence (1943). When newer versions of the Gazette adapted to changes in the structure of legislative authorities, experts from *Al Mustachar* manually allocated affected documents to the relevant policy areas. For example, "public finance" and "banks and financial institutions" are policy areas that, today, both fall under the prerogatives of the Ministry of Finance but can be clearly distinguished based on the subject matter. This way, the allocation of texts among policy areas is consistent and comparable over time. The delineation of texts allocated to policy areas in this and related cases of change in the structure of the Gazette were all reviewed and checked for consistency by the author.

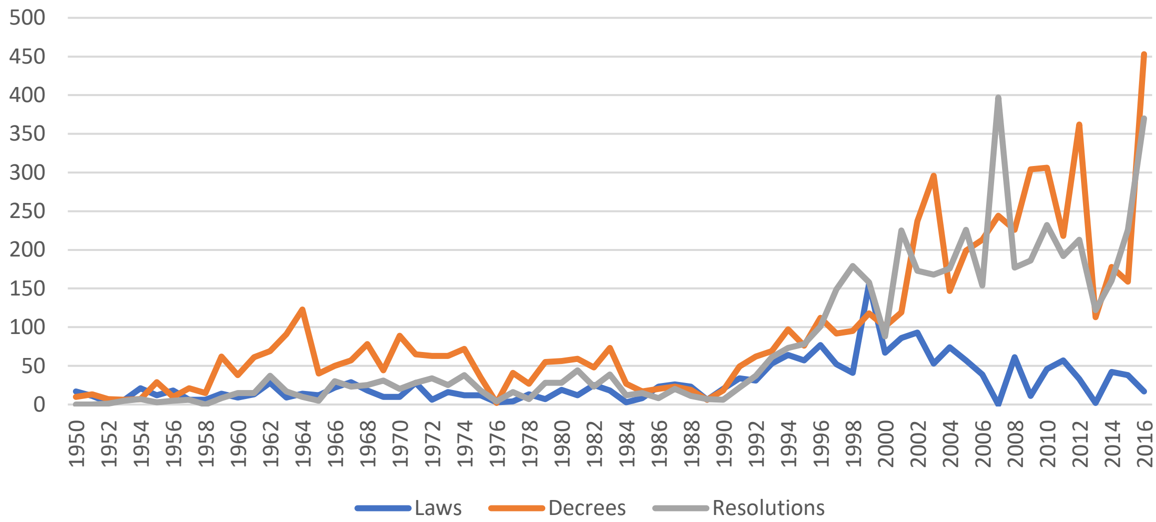
The data set provides for each observation the reference number, the type of legislation (i.e., law, decree, or resolution), the date of publication, and the title. Table 2 displays summary statistics. The number of observations per policy area varies from 0 for all areas in at least one year to 218, the global maximum in the area "property and acquisitions." "Press and Publications" receives the least attention with a maximum of two legislative texts over the whole period per year. Most legislation has been enacted in the area "property and real estate" (1921) followed by "tax and customs" (1669) and "international treaties" (1530). On average, the Lebanese Parliament enacted 28.5 important laws, the Council of Ministers and President 94.5 decrees, and the ministries 74.8 resolutions per year.

Table 4-2: Categories and summary statistics of legislation within the data set on the Lebanese Official Gazette, 1950–2016, Source: Authors' calculations

Category	Obs.	Mean	Std. Dev	Min	Max
Agriculture	611	9.1	15.5	0	76
Tourism and Heritage	440	6.6	6.0	0	26
Labour and Social Security	207	3.1	5.0	0	19
Transportation, Cargo & Traffic	400	6.0	4.2	0	16
Water and Electricity	190	2.8	3.6	0	21
Industry and Oil	119	1.8	2.6	0	9
Trade and Economy	451	6.7	9.3	0	60
Tax and Customs	1669	24.9	38.3	0	175
Foreign Affairs	66	1.0	1.6	0	8
International Treaties and Organizations	1530	22.8	28.0	0	91
Banque du Liban (Circulars)	1223	18.3	18.2	0	94
Banks and Financial Institutions	561	8.4	10.4	0	56
Public Finance	248	3.7	6.6	0	48
Constitutional Law	186	2.8	2.6	0	11
Correspondence and Communications	399	6.0	8.7	0	38
Municipalities and Mayors	472	7.0	12.3	0	60
Coordination of Ministries	689	10.3	12.2	0	56
Public Institutions	562	8.4	7.5	0	27
Personal Affairs and Sects	204	3.0	3.1	0	14
Media and Advertisement	51	0.8	1.4	0	9
Property and Real Estate	1921	28.7	45.3	0	218
Environment and Public Health	401	6.0	6.9	0	26
Education and Culture	899	13.4	13.4	0	89
Culture Sports and Arts	112	1.7	2.1	0	9
NGOs, Cooperatives and Housing	138	2.1	2.6	0	14
National Defence and Security	502	7.5	17.5	0	144
Social Affairs	53	0.8	1.1	0	4
Internal Affairs	65	1.0	1.4	0	7
Press and Publications	18	0.3	0.5	0	2
The Judiciary	206	3.1	3.3	0	14
Sanctions and Penalties	61	0.9	1.0	0	5
Obligations and Contracts	49	0.7	0.9	0	4
Unions and Professions	409	6.1	9.0	0	46

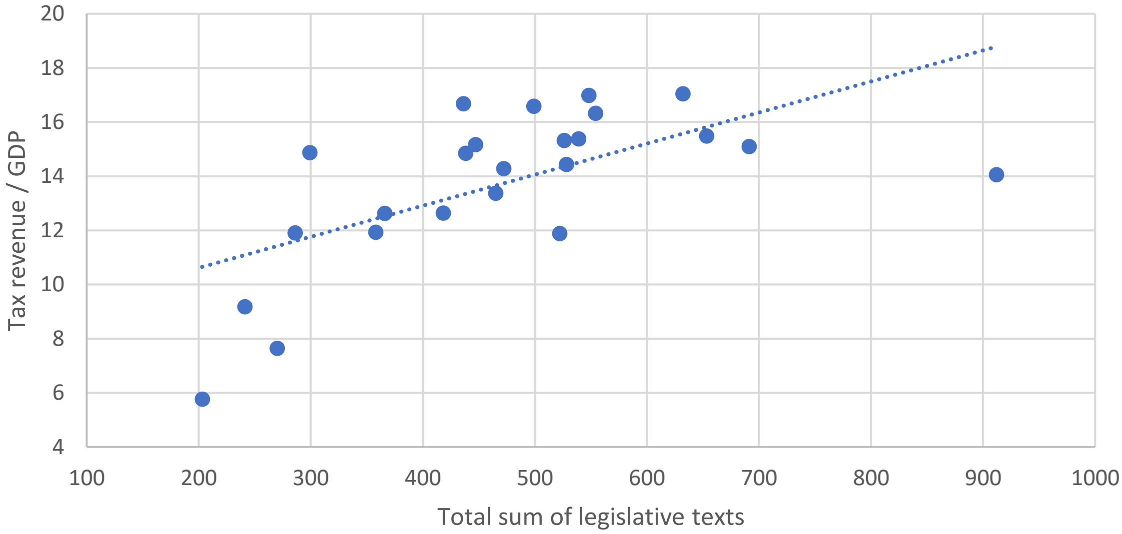
Figure 4-1 shows the evolution of laws, decrees, and resolutions from 1950 until 2016 in total numbers per year. Legislative activity was severely undermined during the civil war (1975 to 1989), resulting in near collapse in 1976 and 1989 where only 12 and 24 important legislative texts were published. After 1990, legislative activity increased significantly and reached a local maximum in 2007 (690 legislative texts) and global maximum in 2016 (912 legislative texts). While the number of decrees and resolutions rose steadily after 1989, the number of laws enacted experienced a marked decline starting from the early-2000s: the decade from 2006 to 2016 witnessed four years in which less than 20 important laws passed the parliament. From 2011 to 2016, the parliament passed, on average, as many important laws as it did in the early 1990s after the end of the civil war.

Figure 4-1: Types of Lebanese legislation passed from 1950 to 2016



The quantity of legislative texts published is highly and positively correlated with measures of state capacity, which is commonly defined as the capacity of the state to implement its objectives (Skocpol, 1985; Hendrix, 2010). Legislative activity, the process of putting political will into effect de jure, is the necessary (albeit not sufficient) first step in the implementation of such objectives. The elaboration, processing and implementation of legislative texts requires institutional resources in the form of technology, specialists, and expertise (Ziblatt, 2008). Increases in legislative activity therefore require higher capacities of its legislative institutions to elaborate these texts and their associated documents, especially in higher levels of government, such as Parliament and Council of Ministers (Chaqués-Bonafont, Palau and Baumgartner, 2015). As figure 4-2 shows, legislative activity in Lebanon is significantly and positively correlated with the ratio of tax revenues to GDP (Pearson correlation coefficient .63, $p<.01$), a widely used indicator for measuring state capacity (Hendrix, 2010). Future research should explore the mechanisms that connect legislative activity and state capacity by, for example, investigating to which extent the quantity and content of legislative texts elaborated by ministries can serve as an indicator of their individual institutional capacities.

Figure 4-2: Association of tax revenue to GDP ratio and total legislative activity, Source: IMF Statistical Database, Lebanese Ministry of Finance, author's calculation



4.4. The Lebanese Political Agenda

The data set can be used for different types of analyses (Alexandrova et al., 2014). For example, it allows a researcher to analyze the temporal dynamics of political attention across issues. Moreover, the data enables a detailed analysis of specific issues and topics. This section presents four examples to illustrate the use and content of the data set:

- Agenda diversity across all 33 major policy areas;
- Political attention after the end of the civil war in 1990 until 2016;
- Political agenda before and after the so-called Paris I-III donor conferences;
- A comparison of the political agenda in times of political gridlock in 2007 and 2013.

While these examples are largely descriptive, they can be combined with other data sources and serve as a basis for more detailed explanatory analysis. For example, the data can be used to examine the effects of macroeconomic developments or electoral cycles on agenda priorities and diversity. What is more, as the data includes the titles of each legislative text, it can be used for various types of quantitative or qualitative analyses, such as spatial analyses of policy developments over time in real estate or the establishment of trade unions, to name two examples.

Lebanon's Agenda Diversity

As introduced above, agenda diversity provides a measure for the degree of dispersion of attention across policy areas on a governments' agenda. In doing so, agenda diversity indicates the capacity of the legislator to pay attention to multiple issues at the same time. A diverse agenda is one in which the attention of the legislator is shared among multiple issues and vice versa.

This section introduces a measure for agenda diversity based on entropy scores. The measure used here is “Shannon’s H” (Shannon, 1948), a measure adapted from information theory (Jennings et al., 2011). Shannon’s H constitutes a probabilistic measure of the spread of observations across a defined number of policy areas. The measure is calculated as the logarithm of the sum of probabilities of all possible states of a system. Applied to agenda diversity, the score has a low value when the attention of the legislator is concentrated on a single topic. If the attention of the legislator is widely dispersed over a wide array of issues, the entropy score is high. Shannon’s H is calculated as follows:

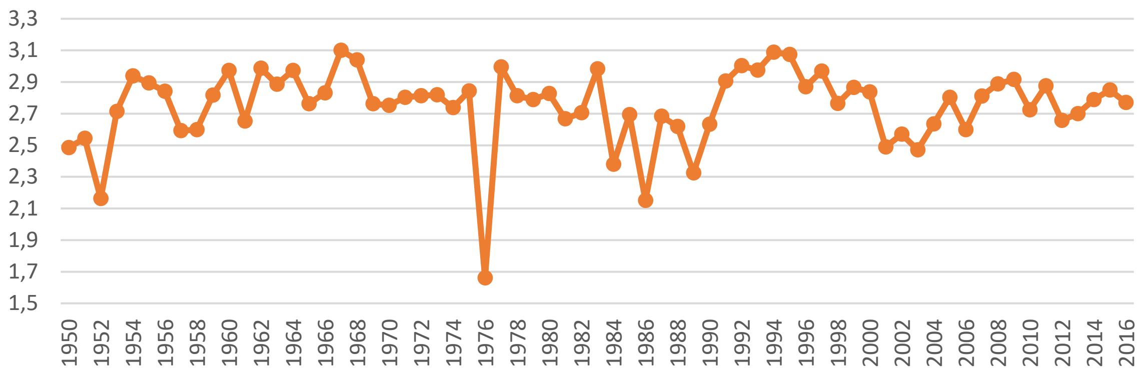
$$H = (-1)\sum_{i=1}^{n} p(x_i)\ln(p(x_i))$$

The entropy score H is calculated as the negative sum for all issue areas of the likelihood p(x) that an observation (here a legislative text published in the Gazette) falls into a specific policy area i, multiplied by the natural log of the same likelihood.[15]

Figure 4-3 shows how the diversity of the Lebanese agenda varied over time. While the average diversity (2.74) remains almost constant over time, several spikes mark the agenda. Lebanon experienced a particularly narrow agenda in 1976, after the outbreak of the civil war (1975 to 1989), where few legislative texts were issued, most of which focused on issues related to financial policy areas (only 12 important pieces of legislation could be issued in total). Similarly, the diversity score drops during the later period of the civil war in the late 1980s during which Lebanon experienced high degrees of political violence and polarization. The period of reconstruction in the early 90s experienced a surge of legislation in a variety of topics. In 2016, however, after 27 years of physical and institutional reconstruction since the end of the civil war, Lebanon’s agenda diversity does not exceed its long-run equilibrium.

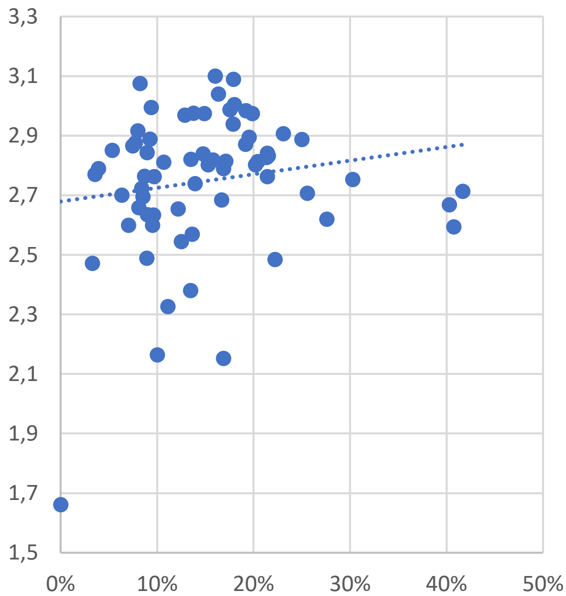
[15] As $ln(0)$ is not defined, $0 * ln(0) = 0$ is defined for all issue areas in which no legislation has been published in a given year.

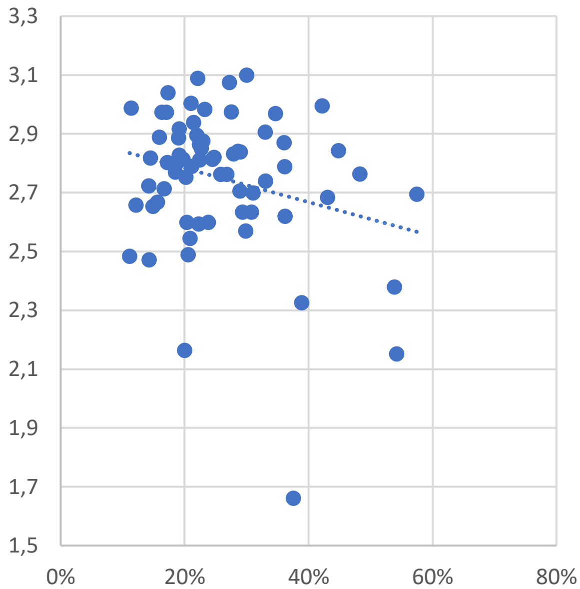
Figure 4-3: Lebanon's Agenda Diversity (Shannon's H) from 1950 to 2016, Source: authors' calculation



The diversity decreases in the early 2000s, which coincides with a shift in priorities towards financial and macroeconomic issues that, among others, aimed at containing the threat of a debt crisis (Makdisi, 2004). This shift in attention coincides with a decrease of legislation that addresses developmental issues, here referred to as issues in the policy areas of education, electricity, environment, health, industry, transport, and water. As Figure 4-4 shows, lower degrees of agenda diversity are associated with slightly lower attention to developmental policy areas (left graph, Pearson correlation coefficient 0.16) and significantly higher attention to financial and economic policy areas (right graph, Pearson correlation coefficient -0.25, p<.05).

Figure 4-4: Left: Agenda diversity to developmental legislative categories (in % of total legislation per year); Right: Agenda diversity to monetary and financial categories, 1950 to 2016 (in % of total legislation per year), Source: Authors' calculation





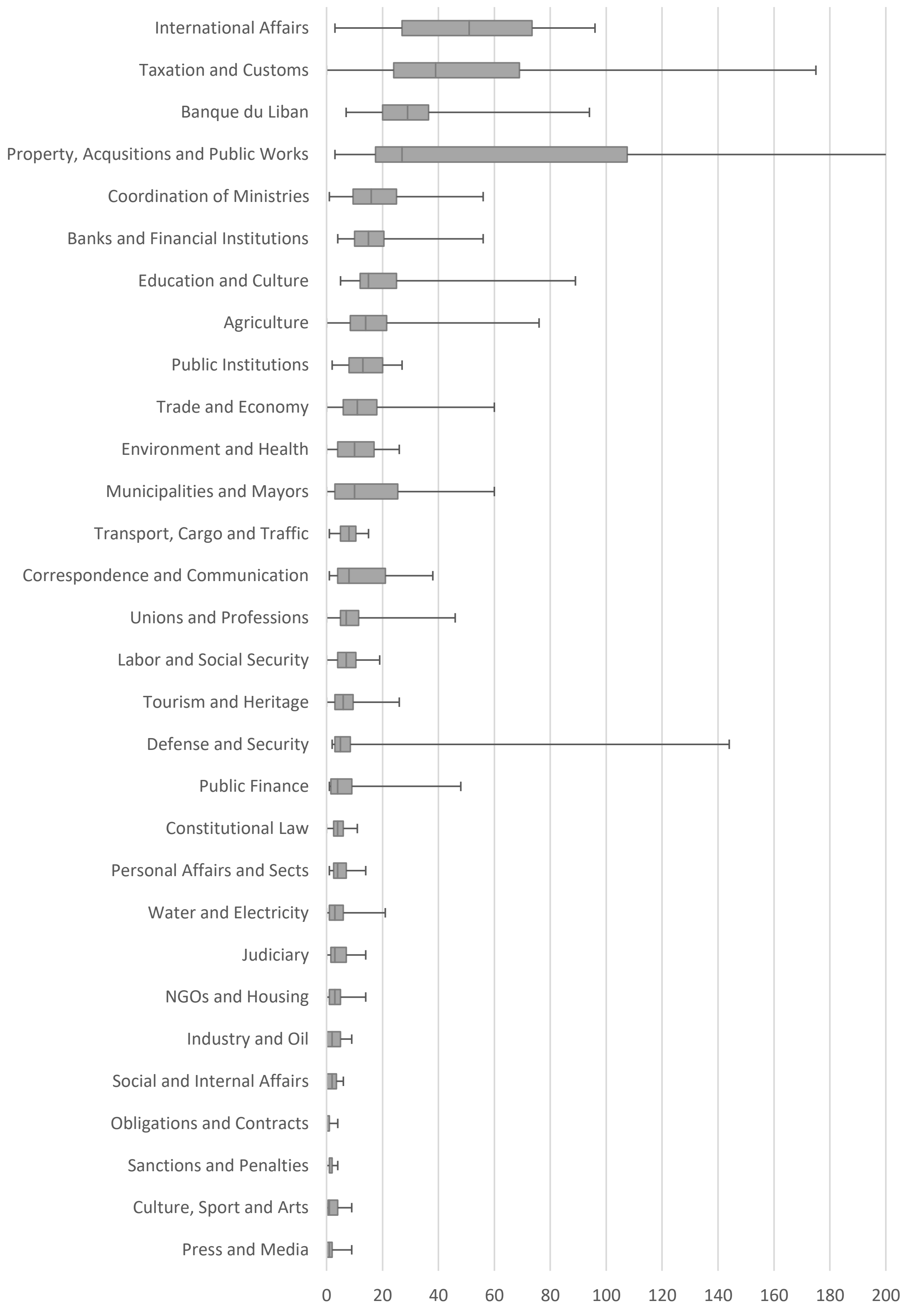
The Political Agenda After the Civil War (1990 until 2016)

The higher degree of political attention towards macroeconomic and financial issues rather than developmental ones remained salient after the end of the civil war (1989). Figure 4-5 shows the average spread in legislation across policy areas after 1990. International affairs, taxation, monetary issues, and property and real estate enjoy disproportionate higher levels of attention per year than the remaining policy areas. The high degree of attention to issues related to the core functions of the Government, in particular to international affairs and the coordination of ministries, is not a specificity to Lebanon but rather a bias inherent in all political systems (Jones and Baumgartner, 2005; Jennings et al., 2011). What is more pronounced, however, is the focus on issues related to taxation and customs, property and real estate, and the relative underrepresentation of any policy areas related to broader aspects of development, such as transport, environment, electricity, water, health, or education. The whiskers in the graph reflect spikes in attention by indicating the minimum and maximum amount of legislation in a year of the sample.

In the period 1990 to 2016, the governmental agenda shifts. Figure 4-6 displays the distribution of laws and decrees across major issue areas over time. These types of legislation exhibit the highest institutional friction and require majority vote within the Parliament and the Council of Ministers.

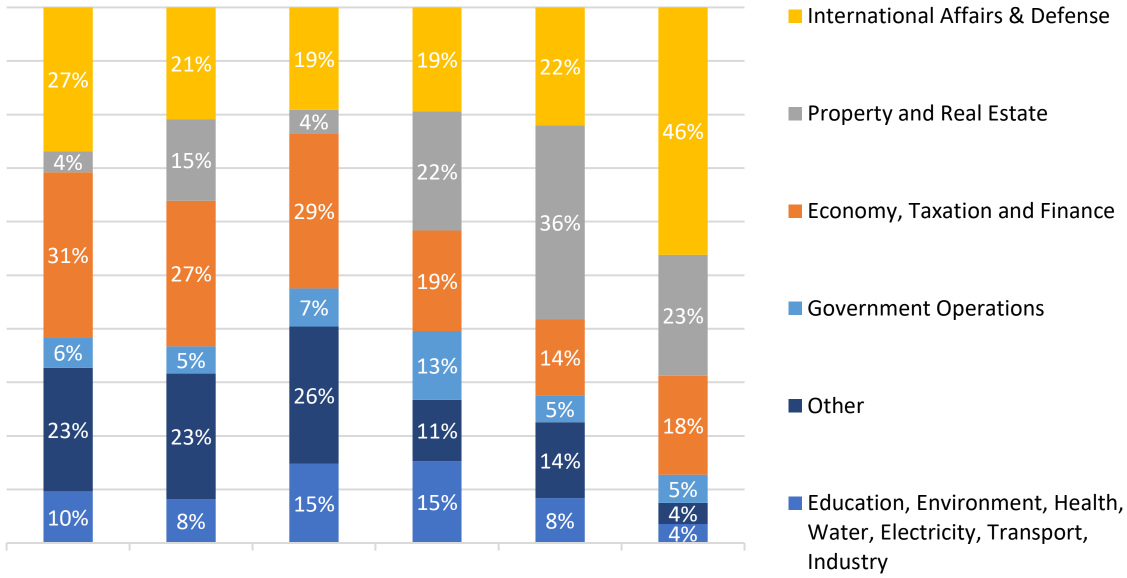
Most political attention on the level of the Parliament and Council of Ministers was consumed by international affairs, followed by monetary issues, macroeconomy, and finance. While issues related to international affairs and defense consumed about 19 percent of the attention of the Council of Ministers and parliament between 2000 and 2005, they made up almost half of the agenda in 2016. Legislation addressing economic issues, taxation and finance decreased from 31 percent to about 18 percent, while developmental issues were at their lowest levels after the civil war with only 4 percent of all legislation. Instead, legislation pertaining to property and real estate increased in importance on the governmental agenda from about 4 percent after the end of the civil war and the beginning of the reconstruction period to 36 percent of the governmental agenda in 2010. In the latest decade (2006 to 2016), more than every third legislative text issued by the Council of Ministers or the parliament addressed issues related to property and real estate.

Figure 4-5: Political Agenda in average total legislation per year, 1990 until 2016



Note: The vertical bars in each box represent the median, and the enclosed boxes represent the 2nd and 3rd quartiles. The whiskers indicate the minimum and maximum values.

Figure 4-6: Share of laws and decrees in developmental categories to total laws and decrees, 1990 to 2016



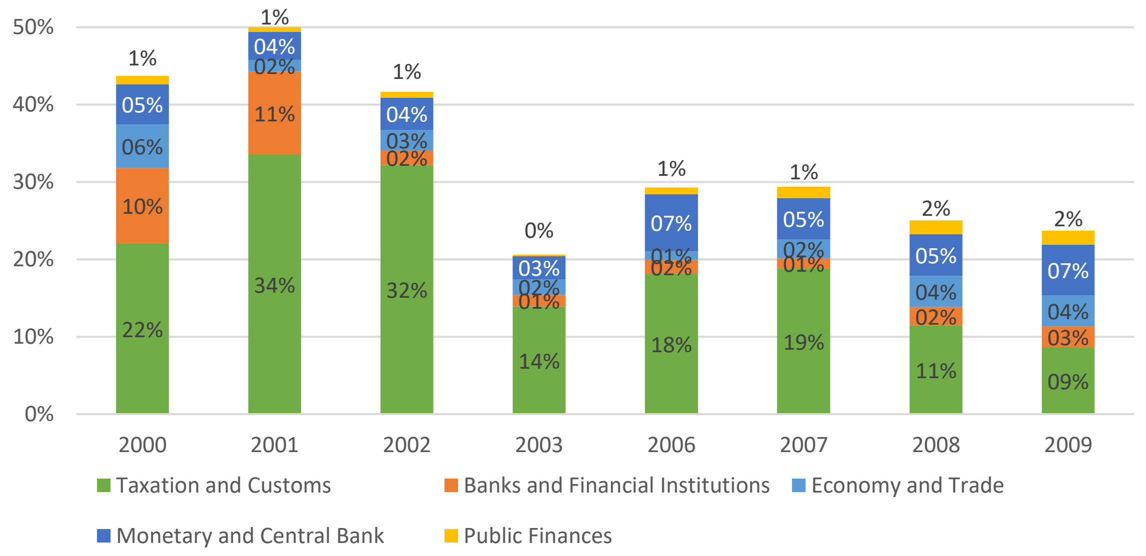
The Policy Response to Donor Conferences, Paris I-III

The years of the early 2000s were marked by significant financial distress. In order to stem the financial burden of reconstruction after the civil war, Lebanon resorted to a financing model based on external creditors, which led to very high degrees of external indebtedness (Makdisi, 2004; Credit Libanais, 2016). In an effort to prevent a financial crisis, three donor conferences were held in Paris (2000, 2001, and 2007) during which an international community pledged financial assistance. Each of the assistance packages was tied to a reform program that aimed to strengthen the revenue base and to consolidate governmental expenditures (Salamey, 2014; Atallah, Mahmalat and Zoughreib, 2018).

Figure 4-7 displays the share of all legislation in monetary, financial, and macroeconomic issue areas to total legislation from 2000 to 2003 and 2006 to 2009. The figure shows that the Lebanese Government in the early 2000s under then-Prime Minister Rafiq Hariri was mostly concerned with strengthening and regulating the revenue base by concentrating on issues related to taxation and customs. In 2001, more than 30 percent of the total governmental agenda was consumed by issues related to taxation and customs. Moreover, the political agenda focused on regulating banks and financial institutions, a sector which is a major contribution to the Lebanese economy (Barakat, 2015). Yet, soon after the initial demands of the reform agendas for Paris I and II seem to have been met, the focus on taxation and financial institutions decreased from 40 percent to less than 20 percent of the political agenda. The reduced attention on financial policy areas was accompanied by an increase in agenda diversity from 2.4 in 2002 to 2.9 in 2008.

A weaker but similar pattern can be discerned during and after the 2007 Paris III conference. Legislation in policy areas related to taxation and customs ceased in importance after the conference. However, the government slightly increased its attention to other issue areas, such as the economy, trade, and industry. What is more, the Lebanese central bank, the Banque du Liban, increased its output of circulars relating to monetary issues in relation to total legislative activity. Based on the data, further in-depth evaluations can assess the extent to which donor demands could influence legislative activity and thereby the success or failure of a reform agenda.

Figure 4-7: Share of legislation in policy areas related to finance and economy, in percent of total legislation, 2000 to 2003 and 2006 to 2009

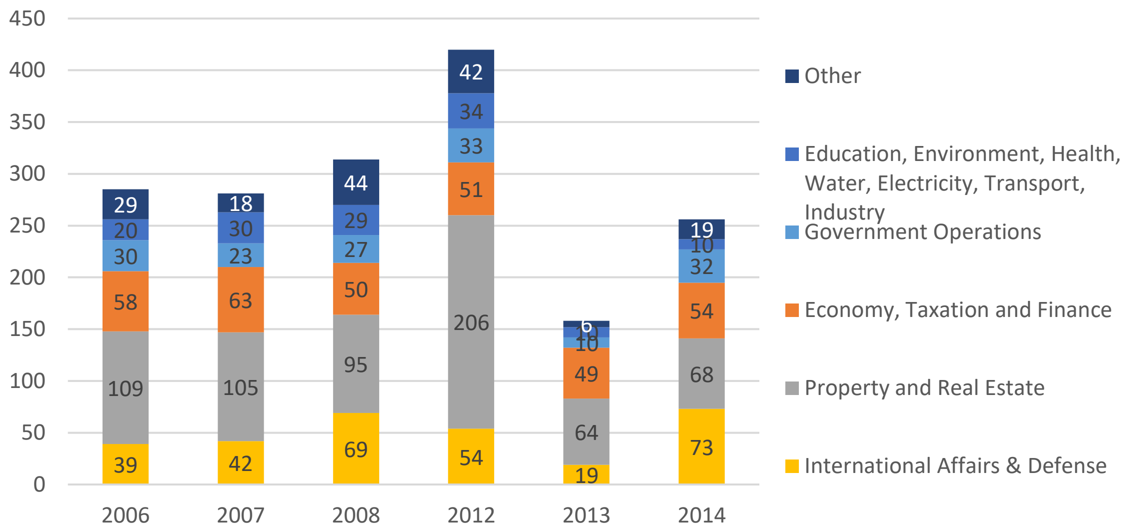


Political Attention During Times of 'Gridlock' – Comparing 2007 to 2013

Political 'gridlock' is a recurring phenomenon in Lebanese politics (Nader, 2014; Salamey, 2014). Lebanon experienced several periods of gridlock in which political polarization over contentious issues reached such an extent that certain governmental institutions were not set to convene for extended periods of time. For example, in late 2006 two parties, Amal and Hezbollah, withdrew their ministers from the unity government at the time over disputes related to executive legislation (Salamey, 2014). As the speaker of the house happened to lead the Amal party, the party could block further meetings of the Parliament by refusing to call it to convene. During the whole year of 2007, no important laws could be enacted. On another prominent occasion starting from 2011, Lebanese politics experienced a marked surge in polarization over the political response to the Syrian crisis. As a consequence, political instability increased, and several governments succeeded each other in short intervals. During 2013, the Parliament only passed two important laws due to political rifts to form a new national unity government.

Figure 4-8 shows that political paralysis impacted the legislative agenda in the two periods differently. While no important laws could be passed in 2007, total legislative activity did not decrease as governmental decrees partially offset the missing output of laws. In contrast, the period from 2013 to 2016 experienced a sharp contraction of legislative activity, which this time also affected the work of the Council of Ministers. The inauguration of a government in early 2014 (The Monthly, 2017) led to a slight revival of legislative activity.

Figure 4-8: Comparison of times of gridlock, number of laws and decrees 2006 to 2008 and 2012 to 2014, Source: Authors' calculation



While all policy areas were affected by the contraction of legislative activity in 2013, agenda diversity was affected differently during 2013 compared to 2007. Figure 4-9 shows that issues related to finance, economic issues and property and real estate maintained their relative importance for the political agenda in 2013. In 2007, instead, the Council of Ministers in particular could spread its attention across a higher number of issues, such as developmental policy areas (transport, education, health, industry, water, electricity, or the environment), external affairs and defense and social affairs. These patterns require further exploration in order to explain the structural conditions that make governments change patterns of political attention despite similar conditions of institutional impasse.

Figure 4-9: Political priorities during times of legislative gridlock, left: 2007, right: 2013, Source: Authors' calculation

4.5. Conclusion

This chapter has shown how legislation data can offer important insights into the patterns of political attention in countries whose legislative institutions provide little data on their workings. The chapter has introduced a new data set on legislative activity in Lebanon, which contains all important primary and secondary legislation between 1950 and 2016. The approach of constructing the data set adds to the study of political attention by proposing a method to identify 'important' legislation based on the review of experts, rather than selection criteria identified by the researcher. As legislation data needs to be made public to take effect regardless of a given type of polity, similar data sets can be established for other countries. The theoretical considerations are transferrable by adjusting the framework to the legislative framework of a given country. The creation of this data set ties in with recent scholarly attention to governance issues in countries of the Middle East and North Africa (Nabli, 2007; Bishara, 2011; Sumpf, Araji and Crompton, 2016).

After having discussed the strengths and limitations of the approach of taking legislative texts as a measure of political attention, the chapter described the construction of the data set and analyzed several examples to illustrate its use and content. The results add to extant literature on the political economy in Lebanon by offering a comprehensive quantitative assessment of the Lebanese political agenda. The analysis illustrates how the country's agenda focused on issues related to macroeconomics, finance, and real estate rather than on developmental policy areas related to education, electricity, health, industry, transportation, and water. These developmental policy areas receive comparably little attention, which is further reduced when agenda diversity decreases. Instead, the government increased its focus on issues related to property and real estate over time. What is more, comparing the political agendas during periods of governmental 'gridlock,' in which legislative institutions such as the Parliament could not convene, reveals how political agendas differ despite similar conditions of institutional impasse.

The data set opens up several avenues for future research of potential importance for development practitioners. As the relationship between the capacities of governmental institutions and legislative activity increased in scholarly attention (Baek, 2019), legislation data enables further in-depth exploration into the mechanisms by which increases in institutional capacities interact with higher amounts of important legislation. Further research is also warranted to discern the effects that polarization and fractionalization have on legislative activity in different governmental institutions and across policy areas.

The current coding scheme of the data set enables various applications. However, extensions and adaptations are welcome to fit the data to different research interests. For example, policy specialists may want to introduce further detail by increasing the number of subtopics or include a geographical dimension in policy areas pertaining to, for example, physical infrastructure or the establishment of trade unions. What is more, the data set can be adapted to suit the coding scheme of the Comparative Agendas Project in order to make the Lebanese legislative agenda directly comparable to other countries (John, 2006).

It is hoped that the systematic study of the Lebanese political agenda will advance our understanding of the political economy of Lebanon and other developing countries with limited data on policymaking processes. Such analyses might lead to a more evidence-based evaluation of performance and responsiveness of legislative institutions, such as the effectiveness of donor aid in response to reform programs and capacity building in governmental institutions.

Moreover, the data enables a more nuanced characterization of the policymaking process in empirical analyses, for example by distinguishing between the issuing institution or the properties of a legislative text. The next chapter will utilize this dataset for developing and testing a theory of political collaboration and to further address the central research question of this thesis, which is to identify the determinants that facilitate or hinder collaboration on reform.

5. FRACTIONALIZATION AND REFORM – A FRAMEWORK OF POLITICAL COLLABORATION WITH APPLICATION TO LEBANON

5.1. Introduction

This chapter leverages the conceptual and methodological work of the preceding chapters to develop a more nuanced understanding of the phenomenon of political collaboration on reform. By utilizing the dataset introduced in chapter 4, this chapter takes the instance of variation in legislative activity cited in the introduction of this thesis as the central motivation to explore the reasons for such differing outcomes of political collaboration. It addresses the underlying research question of this thesis by arguing that the characteristics of a legislative project itself determines the likelihood of being passed.

In Lebanon, a high degree of fractionalization in political representation determines political exchange and curtails legislative activity (LCPS, 2018). In 2015, for example, despite conditions of economic and fiscal hardship that have set macroeconomic indicators on an unsustainable path (World Bank, 2016a), political actors failed to approve important reform, such as a mandatory budget law. However, in November of the same year, the same political actors, operating in the same configuration of political power, approved law No. 44, a controversial reform aimed at "fighting money laundering and terrorist financing."[16]

Numerous accounts can be cited as to why some of these bills passed while others did not, which are mostly personalistic or related to Lebanon's fractionalized consociational democracy (see Leenders, 2012; Salamey, 2014; Salloukh *et al.*, 2015 for recent reviews). However, differing outcomes of collaboration on reform despite a similar configuration of political power are commonplace in Lebanon and other developing countries (Williamson and Haggard, 1994; Corrales, 1998; Galasso, 2014). Extant theoretical approaches tend to model the delay or adoption of reform with distributional conflict as a function of the degree to which a country is fractionalized (see Khemani, 2017, for a review). While these models offer explanations for why reform gets delayed, they offer few insights into why actors encounter a varying degree of difficulty to collaborate on reform depending on the issue they are dealing with.

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[16] The purpose of the law was to ensure the stability of the financial sector by complying with fresh United States regulations and sanctions aimed at curtailing economic and financial activities of organizations related to terrorist groups as well as drug and weapons smuggling. The law was controversial as it incurred potential distributional consequences on politically powerful groups financed by rents from related activities. Available at: http://www.bdl.gov.lb/files/laws/Law44_en[3].pdf [accessed 25/07/2019]

This chapter develops a conceptual framework to explain observable variation in legislative output across time and policy areas. We leverage the framework to explore the mechanisms through which fractionalization affects political collaboration. We argue that the properties of a reform project determine the extent to which fractionalization affects political collaboration on reform: the higher the institutional requirements of a reform are, i.e., the number and nature of political actors and institutions involved in accrediting the legislation, and the broader its impact, i.e. the number of groups that are affected, the more fractionalization can impede political collaboration.

We depart from previous research in two important ways. First, because political bargaining ultimately takes place in governmental institutions, we analyze the impact of fractionalization on political collaboration at a governmental level. We thereby extend the scope of recent empirical work, which analyzes the effects of fractionalization for a country as a whole, and not government itself. While much of this research focuses on the impact of ethnic diversity (Alesina, Baqir and Easterly, 1999; Ashraf and Galor, 2013), ethnic inequality (Kyriacou, 2013; Alesina, Michalopoulos and Papaioannou, 2016), and cross-cleavages (Finseraas and Jakobsson, 2012) on political and economic outcomes, our contribution follows recent research in highlighting the impact of fractionalization within governmental institutions (Beach and Jones, 2017).

Second, we depart from extant literature on the political economy of reform by using legislation itself as a dependent variable, rather than aggregate reform indices or the amount or quality of public goods. Traditional reform indices mostly reflect changes in the regulatory environment of a given country and thereby risk conflating distinct causal connections that link collaboration and regulatory change (Babecký and Campos, 2011; Campos and Horváth, 2012). Similarly, analyzing the provisioning of public goods inherently restricts the analysis on a specific set of policy areas, such as education or health care. By treating reform as a multi-layered concept, we achieve a fuller understanding of the phenomena under investigation, namely political collaboration and reform.

We derive our core concepts from political transactions theory (Spiller and Tommasi, 2003; Stein et al., 2006; Scartascini, Stein and Tommasi, 2013). To achieve reform, political actors need to engage in political collaboration, which requires political transactions in the form of intertemporal agreements. These transactions are intertemporal in nature in the sense that political concessions today are exchanged in return for concessions tomorrow. The central argument of political transactions theory is that the functioning of political institutions impacts upon the capacity of political actors to engage in political transactions and, hence, the quality of policies. Because the concept of political transactions applies to democratic regimes independent of the structure of a polity, we employ it as a theoretical framework in this chapter.

Moreover, we refer to fractionalization as the number of politically significant social groups with veto powers in the process of collaboration (Cox and McCubbins, 2001; Tsebelis, 2002). Extant studies on the political economy of reform find higher degrees of fractionalization to decrease the likelihood of reform in specific policy areas, such as trade or privatization (Banerjee and Munger, 2004; Brooks and Kurtz, 2007; Bortolotti and Pinotti, 2008; Galasso, 2014), and the 'level' of reform (Tsebelis, 1999; Torenvlied and Haarhuis, 2008). As many of these findings are results of panel-data regression analyses, however, they tend to leave transmission channels that could explain individual reform episodes underdetermined (Scheemaekere, Oosterlinck and Szafarz, 2015; Mahmalat and Curran, 2018).

This study addresses this shortcoming by applying our framework to the case of Lebanon.[17] The country is a particularly relevant case to study as political interactions are largely determined by a high degree of fractionalization among sectarian communities (Makdisi and Marktanner, 2009) and has a track record of both protracted reform and low legislative output.[18] We present evidence in a mixed-methods approach in two steps. First, based on a novel database of legislative activity, we show the relevance of our framework to the study of political collaboration. We exploit a natural experiment that occurred in 2005: the so-called *Cedar Revolution*, which ended Syrian military presence in Lebanon. The revolution led to the sudden, in its timing unexpected (re)appearance of significant political parties on the political spectrum that had formerly been outlawed or oppressed. In that way, the revolution is an example of an exogenous shock that led to a sudden, rather than gradual, reconfiguration of political power. The effects of the revolution reduced the production of legislation with high requirements and broad impact, while it left legislative activity with lower requirements relatively unaffected (Section 3).

In a second step, we use the framework to identify mechanisms that link the properties of reform projects to political collaboration (Section 4). The analysis is based on 32 guideline-based semi-structured expert-interviews with parliamentarians, ex-ministers, and government and party officials of all major political factions represented in the Lebanese parliament. We identify two mechanisms. First, uncertainty about time horizons of key actors reduces the incidence of legislation for which the duration of the collaboration game overstretches those of political actors in office. Second, a higher number of political actors requires more mutual trust to make intertemporal agreements credible in the absence of impartial enforcement mechanisms.

[17] Analyzing just one country is, of course, only a step towards a comprehensive comparative approach. However, case studies are found to be a suitable means to explore heretofore unobserved causal mechanisms between variables "because they are not limited to the variables or measures of complex concepts that appear in preexisting datasets" (Gerring, 2007; Weller and Barnes, 2014, p. 4). Therefore, the chapter aims at providing a conceptual basis for the application to future empirical work on a comparative basis.

[18] For example, the average number of laws passed per year from 1990 until 2009 in Lebanon was 56.3 compared to 186.3 for a set of European countries. Source: Authors' calculation based on data of the "Comparative Agenda Project" and the Lebanese Official Gazette. Countries included: Belgium, Denmark, France, Hungary, Netherlands, Spain. Available at: comparativeagendas.net

Our findings contribute to existing literature in two important ways. First, our results help to make sense of ambiguous empirical evidence on the extent to which fractionalization affects the likelihood of reform. Following war-of-attrition models (Alesina and Drazen, 1991) and veto-player theory (Tsebelis, 2002), this literature argues that higher degrees of fractionalization in government settings protract reform over distributional conflict and the reduction of the win-set of the status quo. However, empirical evidence fails to confirm these arguments coherently in studies on different reform areas, such as product market reform, liberalization, or privatization (Mahmalat and Curran, 2018). The analysis in this chapter suggests that fractionalization impacts collaboration depending on the degree of mutual trust required to make intertemporal commitments credible. In environments without impartial enforcement mechanisms, trust gains in relevance the more players are affected by a reform project and take part in the collaboration game. As different policy areas impact different sets and numbers of social groups, trust among actors varies in importance for collaboration.

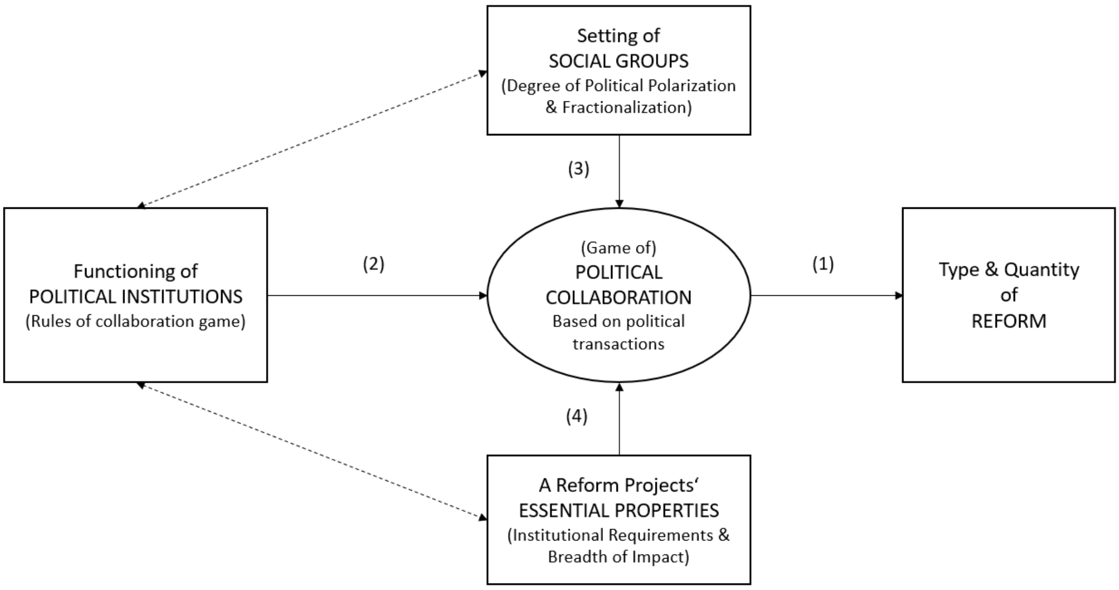
Second, our findings elaborate on research that contends that governmental cycles influence the likelihood of reform (Pinea, 1994; Williamson and Haggard, 1994; Alesina, Ardagna and Trebbi, 2006; Høj *et al.*, 2006; Tompson and Price, 2009). The central argument of this strand of research is that governments are more likely to undertake reform just after having taken office. This literature suggests two channels. First, governments enjoy higher legitimacy just after having taken office which allows them to enact more contentious reform. Second, governments want to pass contentious reform early in their legislature to allow the reform to take effect in an effort to avoid electoral backlashes. Our analysis offers a refinement of these mechanisms. The time-horizons of political actors affect collaboration depending on the requirements of a reform project. As reform increases in requirements and complexity, the elaboration and bargaining time is extended and the more likely it is that reform take longer to pass than a ministers' term in office. Short or uncertain time-horizons lead to friction losses as incentives increase to avert that other parties that follow suit reap any benefits of their efforts.

The remainder of the chapter is organized as follows: Section two develops the conceptual framework. Section three presents evidence of its applicability. Based on the framework, section four identifies mechanisms by which fractionalization impedes collaboration. Section five concludes.

5.2. The Framework

This section sets out the conceptual building blocks of our framework of collaboration on reform as illustrated in Figure 5-1. We discuss four analytical concepts of policymaking and their connection to the phenomenon under consideration, that is, political collaboration. We are ultimately concerned with the type of legislation which constitutes our dependent variable, such as laws or decrees (1). We view legislation as the outcome of political collaboration in the form of intertemporal political agreements. Political collaboration, in turn, is conditioned by the functioning of political institutions (the "rules" of the collaboration game) (2), the setting of social groups (their political polarization and fractionalization) (3), and the properties of a reform project (a projects' institutional requirements and breadth of impact) (4). While the setup of social groups and the properties of a legislative project interact with the functioning of institutions, we argue that they constitute separate analytical dimensions. Last, we derive hypotheses which we test in subsequent sections.

Figure 5-1: The framework



Political Collaboration and Reform

In an attempt to capture the complexity of the concept of reform, this study follows political transactions theory to define political collaboration and reform (Spiller and Tommasi, 2003). The central concept of this theory is *political transactions*, which involve mutual agreements over political concessions that are intertemporal in nature and commonly involve the exchange of "current actions or resources (such as votes) […] for promises of future actions or resources (they are inter-temporal transactions)" (Stein et al., 2006, pp. 17, emphasis added in original). In what follows, we refer to *political collaboration* as the exchange of intertemporal political transactions in the process of bargaining over legislation. Collaboration can be understood as the succession of political interactions by which legislation is processed: from the initial necessity assessment to drafting a bill, discussing and voting in respective institutions, and the eventual publication in official journals.

Following this logic, *legislation* refers to the entirety of documents that enter legal force by representing the outcome of an exchange of political transactions. We define *reform* as 'high-profile' legislation which establishes or amends impersonal rules and significantly change the regulatory framework of a country. Notably, this definition departs from the Spiller and Tommasi framework as it does not refer to the concept and elaboration of *polices* – in their function of setting guidelines for the elaboration of legislation – but focuses on legislation in its function to amend institutional frameworks. As we will argue, this definition enables a conceptual differentiation between policy areas and its institutional origins of a reform in empirical models. Empirical analysis, then, can infer more differentiated conclusions on the mechanisms by which the given socio-economic configuration of a polity impacts political collaboration, and thereby the occurrence of reform.

Political Institutions and Political Collaboration

Political transactions theory defines a set of determinants of an institutional environment that facilitates the ability of political actors to engage in intertemporal agreements (see Spiller and Tommasi, 2003, pp. 288–291). First, the number of key political actors with veto powers should be small. The larger the number of veto players, the smaller the win-set of the status quo, that is, the realm of solutions acceptable to all players (see also Tsebelis, 2002). Second, political actors need to have strong intertemporal linkages. Frequent replacements of key political actors undermine the ability to engage in credible intertemporal agreements. Third, political moves should be easily observable. Collaboration is harder to sustain if actions of actors are difficult to verify or predict. Fourth, there should be strong and impartial enforcement mechanisms, such as an independent judiciary or bureaucracy to which certain tasks can be delegated. Fifth, key political exchanges should take place in formal rather than informal arenas in which the properties one to four are satisfied. These arenas, such as parliamentary institutions, offer an environment that makes agreements easier to observe and enforce. Sixth, the short-run payoff from deviating from collaboration should not be too high. The payoffs-structure of collaboration should provide incentives to sustain collaboration.

However, as the political transactions argument designates the *quality* of *policies* as its dependent variable, it does not specify how the specific *type* of legislation can affect political collaboration, i.e. whether it constitutes a law, decree, or otherwise. As we will discuss below, different types of legislation change the nature of the bargaining game as they involve different institutional processes, actors and incentives.

Fractionalization and Political Collaboration

A fractionalized or polarized polity reflects the difficulties actors encounter to make concessions beyond group boundaries (Easterly and Levine, 1997; van Staveren and Pervaiz, 2017). In a governmental context, fractionalization commonly refers to the “probability that two deputies picked at random from among the government parties will be of different parties” (Cruz, Keefer and

Scartascini, 2016, p. 12).[19] We refer to fractionalization as the number of social groups with veto-powers in the process of political collaboration.[20]

The literature identifies several mechanisms by which fractionalization within a governing body can affect collaboration. Fractionalization tends to impact political and economic outcomes due to differing preferences among groups (Alesina, Baqir and Easterly, 1999; Putnam, 2007; Ashraf and Galor, 2013). The more cleavages among groups overlap with political organizations, then, the more fractionalization can reduce trust among actors (Finseraas and Jakobsson, 2012) and increase conflict (Selway, 2011). Accordingly, Beach and Jones (2017) find that increased fractionalization of governmental bodies – US American city councils in their case – reduces spending on public goods.

Veto-player theory provides another link. A higher number of veto players – an actor whose agreement is needed to change policy – reduces the win-set of the status quo and lowers the likelihood of 'political change' (Tsebelis, 1999, 2002) and the "level" of reform (Torenvlied and Haarhuis, 2008). What is more, the competencies and capacities of politicians are likely to decrease in fractionalized polities, particularly in consociational ones, which impedes the quality of political engagement (Samuels, 1999; Banerjee and Pande, 2007). Lastly, more fractionalized countries exhibit lower levels of trust among political actors (Alesina and Zhuravskaya, 2011; Chakravarty and Fonseca, 2014; Desmet, Ortuño-Ortín and Wacziarg, 2017). In the logic of intertemporal transactions, trust (or the lack thereof) influences actors' perceptions of other actors' future objective function. In consequence, lack of trust makes it more difficult to engage in intertemporal agreements since commitments become less credible.

The more homogenous groups are, the more can fractionalization lead to polarization. Higher degrees of polarization are found to increase the chances for conflict and political instability (Esteban, Mayoral and Ray, 2012), delay reform (Alesina and Drazen, 1991; Alesina, Ardagna and Trebbi, 2006), lower the occurrence of 'significant' reform (Howell *et al.*, 2000; Clinton and Lapinski, 2006), and law production (Mccarty, Poole and Rosenthal, 2006, pp. 176–183).

Properties of Reform Projects and Political Collaboration

[19] In empirical models, fractionalization measures ethnic diversity based on a Herfindahl index:

$$F = 1 - \sum_{i=1}^{n} \pi_i^2 ,$$

where π_i is the proportion of group *i* and *n* the total number of groups in a country. The degree of fractionalization, F, can therefore be interpreted as the probability that two random draws of individuals within a country are from the same political group (Papyrakis and Mo, 2014).

[20] It is important to note here that the concept of fractionalization refers to any identification criterion that gains in political meaning, including ethnicity or religion (Cammett, 2014). As discussed below, fractionalization in the Lebanese case refers to sectarian-based political identities.

The above discussion raises important questions about variation in legislative activity: Why does fractionalization hinder reform efforts in some policy areas, while collaboration in others remains unaffected? Which conditions determine the relative legislative activity of governmental institutions, such as the parliament, or a council of ministers? Which *types* of reform are possible in the face of increased fractionalization, and which are blocked?

With a view to answering these questions, this section discusses how the properties of a reform project – the "objects of collaboration" – condition collaboration. To that end, we review how a country's legal code defines the type of legislation, such as laws, decrees, or resolutions. We identify two properties of a legislative project that condition political collaboration: its institutional requirements and breadth of impact. *Institutional requirements* refer to the number and nature of political actors and institutions that are involved in accrediting the legislation under consideration. *Breadth of impact* is defined as the number of and degree to which a legislation affects different social groups.

Institutional Requirements

Reform originating from different governmental institutions, such as a parliament or a council of ministers, expose political collaboration to distinct rules and constraints (Kingdon, 2003; Jones and Baumgartner, 2005). Legislative institutions on higher levels, such as the parliament, impose a higher degree of *institutional friction* on legislative projects (Chaqués-Bonafont, Palau and Baumgartner, 2015). That is because the *decision costs* to come to an agreement increase in higher levels of government as these involve more veto-players and mandatory procedures, such as voting.

Different types of legislation, then, exhibit varying institutional requirements, i.e. the degree of institutional friction a legislative proposal needs to overcome in order to be adopted. These requirements increase for legislation that needs to pass higher levels of government, such as laws, or constitutional amendments. The nature of these governmental levels is defined by the legislative hierarchy as outlined within a country's legal code. The higher the hierarchical position of a legislative proposal, the higher – on average – the institutional requirements for collaboration.

To illustrate the relationship between institutional requirements and the legal code, we briefly refer to the example of the Lebanese legal code – an example which informs the empirical analysis in Sections 3 and 4. However, the concept is easily adaptable to the legislative context in other countries. Table 5-1 shows a simplified hierarchy of the Lebanese legal code, which is modeled after the French legal code.

Table 5-1: Hierarchy of legislation according to the French civil law code, as adapted within the case of Lebanon. Sources: Lebanese Constitution, *Dictionnaire du droit privé,* and *Glossaire de Vie Publique.*

Rank	Type of Legislation	Description	Issuing Body	Institutional Requirements
1	Law	A supreme, general and impersonal legal rule, following the Parliament's deliberation and initiative. No law can be enacted if it has not been passed by the Parliament.	Parliament	High
2	Decree	Administrative orders taken by the President of the Republic, or the Council of Ministers according to the powers allocated by the Constitution and the Laws. No parliamentary approval necessary but limited in scope by applying the law.	Council of Ministers, President	Moderate
3	Resolution	Issuance of the Executive power, i.e., the Ministers or the administrative authorities, to which constitutional laws conferred regulatory power. Limited legal scope within the realm of existing legal frameworks.	Ministers	Low

Laws set the legal framework for all legislation further down the hierarchy and have – on average – the highest institutional requirements. They involve the largest set of political actors, as they need to be elaborated in commissions, crafted by lawyers and experts, discussed by all parties in the parliament, and so on. At the lower end of the complexity spectrum, decrees and resolutions serve the purpose of applying the law on an administrative basis and potentially involve the lowest number of actors. Such legislation is issued by ministries which are usually governed by party members or affiliates that enjoy administrative authority over the legislation a ministry provides.

Breadth of Impact of Reform

Mutual trust plays an important role for collaboration in fractionalized polities due to the intertemporal nature of political exchange. In polities with weak legislatures, and we argue that Lebanon is such a case, political exchange takes place in alternative settings that are less formal, more uncertain and harder to enforce as credible enforcement mechanisms, such as an independent judiciary, are absent (Spiller and Tommasi, 2003; Scartascini, Stein and Tommasi, 2013). Political actors' ability to engage in such transactions depends on their ability to accurately forecast the likelihood that other players will abide by their commitments.

The credibility of commitments is likely to vary with the breadth of the impact of a policy issue. The broader the impact of a reform proposal in terms of its effect for a larger number of groups, ceteris paribus, calculations about future preferences increase in complexity and information asymmetries are harder to overcome (Laban and Sturzenegger, 1994; Acemoglu, 2003). If the impact of reform is sufficiently narrow or balanced and allows for reliable predictions of future preferences of other groups, collaboration on reform becomes less susceptible to the lack of trust. Local environmental projects, for example, are reforms for which lack of trust is less of an issue for collaboration, as the distribution of costs and benefits is clearly defined. In contrast, if the impact of reform is broad, such as for tax reforms, a large number of groups is affected which complicates the assessment of the implications of reform.

Implications for Political Collaboration on Reform

The above discussion enables us to refine how fractionalization can impact collaboration on reform. A higher level of fractionalization in governmental institutions increases the institutional friction in governmental institutions. As the legislative process in higher-ranking levels of government necessitates agreement among a higher number of potential veto players, in particular in unity governments and power sharing arrangements, an increase in fractionalization should affect the collaboration on legislation with high-requirements more than legislation further down in the legal hierarchy.

What is more, a multitude of actors with veto powers decreases the win-set of the status quo of a reform project. Higher fractionalization should therefore deter collaboration on reform with a broad impact as it increases the number of veto players with an incentive to exercise their veto powers. This should reduce the likelihood of reforms that establish impersonal, general rules, such as laws, which apply to multiple or all social groups in a country or have distributional consequences that are more difficult to predict.

5.3. The Effects of a Revolution on High-Profile Legislation

To verify the applicability of the framework, we exploit a natural experiment that occurred in Lebanon in early 2005, the *Cedar Revolution* (Bosco, 2009). The revolution led to a sudden increase in fractionalization and represents a case of an exogenous shock that led to a sudden reconfiguration of political power. In the logic of intertemporal agreements, the shock was exogenous in the sense that actors could not *ex ante* base their mutual agreements before 2005 on the expectation of a sudden change in the configuration of political power. While Lebanon’s governance structure of communal power sharing remained unchanged, political agreements had to be made on a broader political consensus.

This section shows that the events in 2005 had a significant negative impact on the provision of high-profile legislation. The next section investigates mechanisms by which this happened.

Historical Background and Identification

Following military involvement during the Lebanese civil war (1975-1989), Syria maintained a military presence with direct political influence in Lebanon until 2005. During that period, the Syrian government served as an important arbiter in Lebanese politics: whenever a dispute between the major political veto-players over legislation threatened to lead to gridlock, the Syrian government intervened to resolve conflict (El-Husseini, 2012). Moreover, the Syrian government prevented several parties, which fought against them during the civil war, from partaking formally in the political arena.

In February 2005, ex-prime minister and critic of the Syrian presence Rafiq Hariri, was assassinated by a car bomb in Beirut, an attack for which large parts of the international community and the Lebanese population held the Syrian government responsible. The events that followed led to the so-called Cedar Revolution which resulted in the withdrawal of Syrian troops from Lebanon by April 2005.[21]

The Syrian withdrawal increased the fractionalization within governmental institutions and increased the number of veto players. Two political parties reappeared in the political arena that have been forbidden during the Syrian presence, specifically the Lebanese Forces and the Free Patriotic Movement. These two parties henceforth played a major role in Lebanese politics. They gained parliamentary representation and won 6 and 15 of 128 parliamentary seats in the 2005 general elections that were held in May and June after the revolution.[22] More importantly, however, their political leadership was allowed to return from exile or was released from prison, which increased the number of communal leaders, or oligarchs, that maintain veto-powers in decision making at the elite level.[23] No other extraordinary institutional or constitutional amendment has been introduced in this period.

The Dataset

[21] Second semi-annual report of the Secretary-General to the Security Council on the implementation of resolution 1559, available at: https://undocs.org/S/2005/673, [accessed 7/12/2018]
[22] See the official webpages of the Lebanese Government, http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=31, [accessed October 2017].
[23] See section 4 of this paper and Mahmalat and Chaitani (2019) as well as Salamey (2014) for more detailed information on this point.

We use a novel comprehensive database on legislative activity in Lebanon since 1950.[24] The data is based on the Lebanese *Official Gazette*, the official government journal that publishes all relevant legislative texts enacted by any governmental body in order to take effect and become legally binding.[25] Each legislative text, from laws to decrees or circulars, constitutes one observation.

The dataset is retrieved from *Al-Mustachar*, a private provider of an online archive of legislation data,[26] and is organized as follows. In total, the dataset includes 15,112 observations (i.e., legislative texts) over 67 years from 1950 until 2016. The database distinguishes between 33 policy areas of legislation and provides for each observation the reference number, the type of legislation (i.e., law, decree, resolution, circular, or other), the date of publication, and the title. Table 5-2 displays summary statistics.

Table 5-2: Categories and summary statistics of legislation within the database on the Official Gazette

Category	Obs.	Mean	Std. Dev	Min	Max
Agriculture	611	9.1	15.5	0	76
Tourism and Heritage	440	6.6	6.0	0	26
Labour and Social Security	207	3.1	5.0	0	19
Transportation, Cargo & Traffic	400	6.0	4.2	0	16
Water and Electricity	190	2.8	3.6	0	21
Industry and Oil	119	1.8	2.6	0	9
Trade and Economy	451	6.7	9.3	0	60
Tax and Customs	1669	24.9	38.3	0	175
Foreign Affairs	66	1.0	1.6	0	8
International Treaties and Organizations	1530	22.8	28.0	0	91
Banque du Liban (Circulars)	1223	18.3	18.2	0	94
Banks and Financial Institutions	561	8.4	10.4	0	56
Public Finance	248	3.7	6.6	0	48
Constitutional Law	186	2.8	2.6	0	11
Correspondence and Communications	399	6.0	8.7	0	38
Municipalities and Mayors	472	7.0	12.3	0	60
Coordination of Ministries	689	10.3	12.2	0	56
Public Institutions	562	8.4	7.5	0	27
Personal Affairs and Sects	204	3.0	3.1	0	14
Media and Advertisement	51	0.8	1.4	0	9
Property and Real Estate	1921	28.7	45.3	0	218
Environment and Public Health	401	6.0	6.9	0	26

[24] See Mahmalat (2019) for a detailed discussion of the dataset
[25] See the official webpages of the Lebanese Government and parliament, http://www.pcm.gov.lb/arabic/subpg.aspx?pageid=31, http://www.loc.gov/law/help/legal-research-guide/lebanon.php, [accessed October 2017].
[26] The archive can be accessed under: https://almustachar.com/ [accessed May 2018], data set available upon request from the author.

Education and Culture	899	13.4	13.4	0	89
Culture, Sports and Arts	112	1.7	2.1	0	9
NGO's, Cooperatives and Housing	138	2.1	2.6	0	14
National Defence and Security	502	7.5	17.5	0	144
Social Affairs	53	0.8	1.1	0	4
Internal Affairs	65	1.0	1.4	0	7
Press and Publications	18	0.3	0.5	0	2
The Judiciary	206	3.1	3.3	0	14
Sanctions and Penalties	61	0.9	1.0	0	5
Obligations and Contracts	49	0.7	0.9	0	4
Unions and Professions	409	6.1	9.0	0	46

The Dependent Variable – Introducing a Measure for High-Profile Reform

We test our hypotheses by examining the effect of the 2005 Cedar Revolution on legislative outcomes. We use a measure of high-profile legislation as our dependent variable. To indicate high-profile legislation, we reviewed the content of all laws between 1990 and 2016 in order to identify policy areas that comprise high-profile legislation. The choice of policy areas is based on the assumption that laws published in these categories represent high profile reform and required a political bargain that involved the approval of most, if not all political parties and veto players. We follow the recommendations by Clinton and Lapinski (2006), and others to validate the choice of, in their words, "significant" legislation with third sources: we consulted legislative experts, politicians, and extant literature on the work of parliament (LCPS, 2018) to identify high-profile legislative categories. Based on these considerations, we create a variable that comprises of legislation within the following policy areas: banks and financial institutions, environment and health, industry and oil, public finance and water and electricity. We conduct robustness checks with alternative specifications.

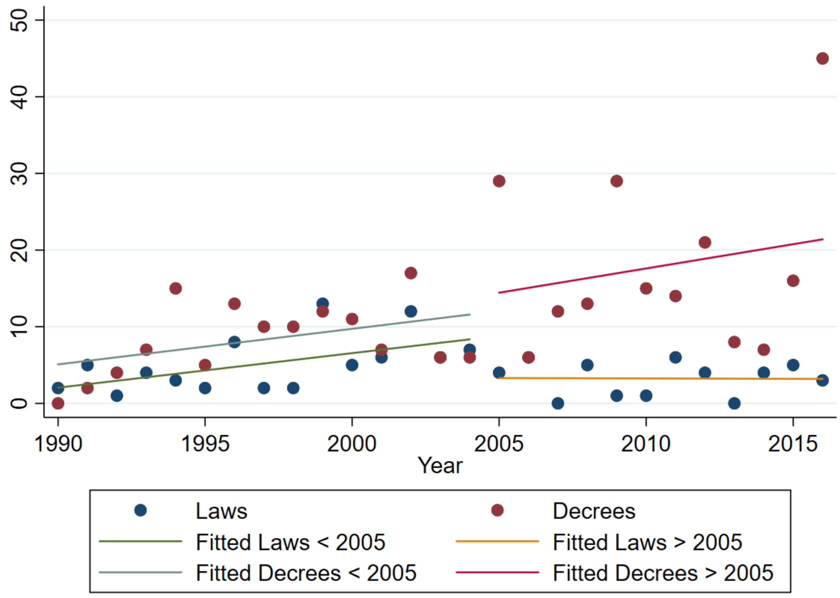
Hypothesis and Model Specification

Based on the theoretical discussion above, we hypothesize that higher degrees of fractionalization should reduce the amount of high-profile legislation, while they leave collaboration in lower layers of government relatively less affected. The framework hence predicts that parliamentary activity (laws) in the identified policy areas should decline more than governmental (decrees) or ministerial activity (resolutions) in the same policy areas.

We leverage a differences-in-differences model in order to test this hypothesis and analyze the impact of the sudden change in political fractionalization that the Cedar Revolution induced. We use our measure for the number of high-profile legislation as a dependent variable. To test the predictions of the framework, we take laws as the treatment group and both decrees and resolutions of the same policy areas as control group.

Difference-in-differences models rest upon the assumption that the data generation processes for the control and treatment groups follow similar trends before the treatment (Morgan and Winship, 2014). To scrutinize this parallel-trend assumption, Figure 5-2 compares legislative activity in the identified high-profile issue categories between laws and decrees from 1990 until 2016. The graph indicates that 2005 constituted a disruption in the trajectory of the data generating process for laws, while it left the trend for decrees unaffected. Before 2005, both laws and decrees increased almost in parallel which reflects a revival in administrative capacity after the civil war. After 2005, the average level of high-profile laws dropped and has stagnated thereafter while the number of decrees continued to increase.

Figure 5-2: Absolute number of high-profile laws and decrees from 1990 until 2016.



We use a negative binominal estimation rather than a Poisson regression since the dependent variable shows signs of over-dispersion, i.e., the variance far exceeds its mean (table 5-3).

Table 5-3: Summary statistics of the dependent variable

Policy Area	Mean	Variance	N
1	2.31	7.35	54
2	1.96	21.77	54
3	1.87	11.09	54
4	1.68	1.95	54
5	0.62	1.48	54
Total	1.69	8.92	270

Note: Issue categories for both laws and decrees from 1990 to 2016

We estimate the following equation

$$Y_{ct} = \alpha + \gamma R_t + \lambda L_c + \delta(R_t * L_c) + \varepsilon_{ct}$$

where Y_{ct} is a count variable and depicts the number of laws in policy area c and time, t. R_t is a dummy variable for the post-treatment years and takes the value of 1 for years greater 2004. L_c is a dummy variable for legislation in the treatment group (laws) in policy area, c. $(R_t * L_c)$ represents the differences-in-differences estimator, *DiD*. All specifications are run by using robust standard errors.

Results

Table 5-4 shows regression results. The differences-in-differences estimator *DiD* is significantly and negatively related to the number of high-profile laws in all model specifications. Model 1 uses the number of decrees in high-profile categories as control group, while model 2 takes the number of resolutions. Model 3 uses the sum of decrees and resolutions as control group. The effects of the 2005 revolution reduced the passage of high-profile legislation per year by more than one vis-à-vis lower-profile legislation in the same policy area.

Table 5-4: Regression results

	Models						
Independent Variable	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
Dummy post-Revolution	0.76	0.50	0.59	0.50	0.76	0.15	0.85
	(3.35)**	(2.10)*	(3.13)**	(2.11)*	(3.36)**	(0.79)	(3.57)**
Dummy Laws	-0.47	-1.15	-1.56	-1.15	-0.47	-1.06	-0.81
	(2.36)*	(4.43)**	(7.08)**	(4.71)**	(2.00)*	(5.14)**	(3.32)**
DiD	-1.23	-0.97	-1.06	-0.97	-1.23	-0.69	-1.38
	(3.89)**	(2.99)**	(3.66)**	(2.56)*	(3.43)**	(2.14)*	(3.70)**
constant	0.51	1.19	1.60	2.80	2.12	2.87	2.62
	(4.03)**	(5.68)**	(10.16)**	(17.50)**	(13.30)**	(21.56)**	(16.01)**
N	270	270	270	54	54	54	54

Notes: * p<0.05; ** p<0.01; t-statistics in parentheses; dependent variable for model I-V: number of laws in policy areas banks and financial institutions, environment and health, industry and oil, public finance and water and electricity; dependent variable in models IV and VII: sum of laws environment and health, education and culture, industry and oil, water and electricity, and transport and cargo. As models iv-vii use the sums of the areas regarded, rather yearly observations of each category, number of observations is 27 (years) for both treatment and control group.

To test the robustness of our results, we run two types of robustness checks. Models 4 and 5 take the sum of all categories as a control group in decrees and resolutions, not only the legislation passed in the categories identified above as belonging to "high-profile." Furthermore, we create an alternative measure for high-profile reform categories. The alternative variable specification includes all policy areas that refer to non-generic categories pertaining to public goods provision. These categories include environment and health, education and culture, industry and oil, water and electricity, and transport and cargo. We exclude financial categories to account for the possibility that financial conditions after 2005 would have relieved the pressure on the government to react via legislation in these categories. We test them in models 6 and 7 by using decrees and resolutions in these categories as control groups. The differences-in-differences estimator is again negatively and significantly related to the number of laws passed in high-profile categories.

The results confirm the hypothesis outlined above. The sudden reconfiguration of political power in 2005 had a significant impact on collaboration for legislation with high institutional requirements and with broad impact. At the same time, collaboration on legislation that was less exposed to the effects of increased fractionalization was relatively unaffected.

5.4. Mechanisms

After having verified the connection between our core concepts, our conceptual framework allows us to identify mechanisms that explain *how* fractionalization affects collaboration on reform in Lebanon. The analysis is based on a series of 32 semi-structured expert-interviews with Lebanese parliamentarians, ministers, and party officials of all factions represented in the Lebanese parliament. The interview framework and coding scheme were designed to elicit the mechanisms by which fractionalization influences political collaboration on reform. Details about methodology, interview framework, as well as interviewee selection are provided in section 5.6 at the end of this chapter.

The first subsection reviews salient characteristics of the Lebanese polity to describe the functioning of its political institutions. The second subsection discusses possible mechanisms, while the subsections thereafter identify the relevant ones based on the interviews.

Central Features of Lebanese Political Institutions

The Republic of Lebanon is a parliamentary democracy in a sect-based consociational power-sharing arrangement with limited presidential executive authority (see Salamey 2014; Salloukh et al. 2015; Hermez 2017 for recent reviews). The country's constitution recognizes 18 religious sectarian groups, whose political representation is organized in dedicated political parties. The leadership of these parties, or oligarchs, comprises the economic and political elite of the country and maintains power by distributing clientelist rents to their constituencies (Leenders, 2012; Cammett, 2014, 2015; Diwan and Haidar, 2019). Access to valuable economic and political functions of the state among these oligarchs after 2005 roughly reflects the underlying distribution of socio-economic power of their constituencies (Mahmalat and Chaitani, 2019). That way, these oligarchs maintain veto powers and important decisions must be taken by mutual consent of most if not all communities. Political collaboration is determined by the competition between these oligarchs, which is largely informal and takes place in arenas outside of political institutions in which impartial enforcement mechanisms are absent.[27]

In formal arenas too, political collaboration depends on transactions between a large number of political actors. Due to the high number of parties represented in the parliament,[28] no single party is strong enough to establish a government by itself. This makes coalitional arrangements the rule and unity governments frequent (The Monthly, 2017) and thereby necessitates constant interaction among actors from most parties.[29]

Possible Effects of the Revolution on Collaboration

The revolution reconfigured political power and thereby impacted political collaboration. There are several mechanisms by which this could have happened, two of which we verify in our analysis. First, a greater representation of political parties and the absence of a political hegemon can lead to an increase in democratic accountability. Electoral incentives could become of higher relevance to structure political life. However, given that the structure of political exchange in a sectarian power sharing arrangement did not change, the extent to which parties relate to electoral incentives did not significantly increase after 2005[30] and did not figure in the narrative of any interviewee despite explicit references in the questionnaire.

Second, the events led to major political polarization along the lines of foreign policy positions: most political parties grouped into the so-called “March 8” and “March 14” alliances. These two blocs were formed before the 2005 general elections that took place after the revolution and remained

[27] This system of mutual consent becomes most salient in the workings of the so-called “Troika,” consisting of the President, the Prime Minister, and the Speaker of the House who ought to be of Maronite Christian, Sunni and Shi’a faith. Unanimity among these actors is required to pass legislation (Makdisi, 2004; El-Husseini, 2012).
[28] 22 parties or blocs in the 2009-2018 parliamentary cycle
[29] The seven biggest parties are: Free Patriotic Movement, Lebanese Forces, Kataeb (all majority Christian supporters), Future Movement (majority Sunni Muslim supporters), Amal and Hezbollah (majority Shi’a supporters), the Progressive Socialist Party (majority Druze supporters).
[30] Voters exhibit a high degree of loyalty to a party: more than 90 per cent of voters voted for the same party in the 2009 and 2018 parliamentary elections (Mourad and Sanchez, 2019). Accordingly, the “democratic accountability” measure of the Political Risk Services Group (PRS), indicating the degree of responsiveness of governments to citizens’ demands, increased from 2 in 1990 to 5 in 2004 and remained stable on 5 thereafter.

politically relevant until the general elections 2018.[31] However, unity governments occurred frequently after 2005 and policy positions and preferences vary widely *within* parties (LCPS, 2018). As verified in the interviews, such divergence diminishes the importance of polarization between parties on collaboration. Moreover, polarization by sectarian affiliation did not significantly change patterns of collaboration as political parties frequently engaged in cross-sectarian "alliances" to preserve their strategic interests (Karam, 2017).

Third, the sudden increase in fractionalization has contributed to increased political instability in the absence of effective enforcement mechanisms of political contracts. While the duration of governments remained almost constant before and after 2005 at about 1.5 years, the post-2005 era experienced a number of 'political gridlocks.'[32] As our analysis confirms, political instability reduces the confidence in intertemporal commitments as it shortens the time-horizons of key actors.

Lastly, an increased fractionalization in terms of number of political parties can complicate the exercise of forecasting the objective functions of other players in political bargain. Accordingly, the trust of actors that others will keep their intertemporal commitments can decrease. Our analysis confirms channels three and four: collaboration on high-profile legislation is impeded when (1) a higher degree of trust is required to make intertemporal commitments credible and (2) the time horizons of the collaboration game extend beyond those of political actors.

Mutual Trust

This section argues that collaboration in environments of higher fractionalization requires higher degrees of mutual trust. The weakness of state institutions in Lebanon results in a lack of political competition along stable ideological platforms (see also La Ferrara and Bates, 2001; Cammett, 2014) and pushes political collaboration into informal arenas in which enforcement mechanisms are absent. In such environments, mutual trust between political actors becomes the key factor that determines their capacity to engage in transactions that are intertemporal. As a consequence, collaboration on reform with a broad impact, i.e., reform that affects many groups, gets impeded as the objective functions of other players become more difficult to predict. This requires a higher degree of trust among political actors that promises for intertemporal agreements are kept.

"There are no political *parties"*

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[31] While they remained major political platforms during the 2018 general elections, they ceased in their relevance to structure political life after 2015/2016 and amended the political narrative that gave them political meaning.

[32] While the average period to form a government was 6 days from 1989 to 2005, this time increased to 100 days from 2005 to 2016. Accordingly, the measure "government stability" of PRS, assessing "both of the government's ability to carry out its declared program(s), and its ability to stay in office", decreased from an average of 7.8 in 1990 until 2004 to an average of 6.3 from 2005 to 2016.

The weakness of Lebanese political institutions influences political collaboration in two important ways. First, parties maintain an important role in public service provisioning based on which parties cater to constituencies in return for votes (Cammett, 2014). Every institutional change tends to be perceived as a potential threat that challenges both the fragile balance of power and distribution of economic rents (Interviews, A27, A29). As one Member of Parliament stated while explaining why identity largely determines political collaboration until today: “The problem in Lebanon is the psychological reconstruction, particularly after the civil war … The Lebanese aren’t ready yet. Reconciliation has not been achieved.” (Interviews, A3) A former ministerial advisor put it more succinctly: “There are no *political* parties in Lebanon.” (Interviews, A28)

As a consequence, the ideology of actors fails to structure their party affiliation (LCPS, 2018). Very different personal political positions within the same party prevent the establishment of coherent party positions along stable ideological platforms. Such incoherencies make future preferences less predictable and thereby complicates political collaboration.

“Out of Shape” Lawmakers

Legislators and related institutions in Lebanon have an exceptionally low capacity to prepare and process legislative proposals with high requirements (LCPS, 2018). The number of laws drafted and enacted by domestic legislators is low and results from several institutional deficiencies. Any bill must be discussed within parliamentary commissions and referred by these to the parliament after consensus has been reached. These commissions, however, constitute severe bottlenecks in the output flow of legislation (Interviews, A1, A2, A3, A5, A6, A7). For example, after 1989 the parliament convened on average only four times per year and therefore necessitated that a high number of laws be passed within each session (Moukheiber, 2013). In the words of a parliamentarian in elaborating on the difficulties to engage in discussions about budgetary and taxation issues: “This parliament has not debated any tax or any financial budget issue for the past twelve years. So, you're out of shape! […] That's a parliament that's supposed to run a marathon, and it's been in a wheelchair for the past twelve years.” (Interviews, A5)

As a consequence, the legislature tends to fail to keep pace with legislative demand and governmental institutions often fail to process requests for input, which diminishes trust in the accuracy of their work (Interviews, A31). The general sense of incapacity is exemplified by a Member of Parliament on the question of the extent to which threats of economic crisis are reflected in the everyday work of political actors: “Forget all of that, whether it’s valid or not. But you’ve got a bunch of people that are left in the dark, alone, with no assistance whatsoever, on issues of economics, on issues of tax, other than their friends and relatives.” (Interviews, A5)

Importance of Mutual Trust

The low capacity of legislators and the unpredictability of policy positions due to high fractionalization undermines mutual trust necessary to engage in political collaboration with a broad impact. Numerous accounts lamented over instances in which agreements have been reneged on and direct exchange over policy issues was avoided as soon as the exchanges become complex ("The minister kept running away!" Interviews, A8, A1, A4, A5). Collaboration on reform projects appears to be more successful when the impact on all groups involved is sufficiently predictable in that they can calculate the cost and benefits for all parties involved (Interviews, A6, A8) and state resources can be allocated equally across groups (Interviews, A27, A29).[33] In elaborating on a reform project in which collaboration was particularly successful, a Member of Parliament explains why a reform project focused on local environment could be implemented in collaboration with a wide range of actors: "[…] the many facets of the project – whether it's water, or health, or environment – were extremely important issues that helped us to bypass political differences, because the topic was very focused." (Interviews, A1)

Short-Time Horizons of Key Executives

This section argues that collaboration on legislation with high institutional requirements is more difficult the shorter the time horizons of key actors are. Political instability decreases the confidence in the duration of a government. Key political actors, therefore, face uncertain time horizons in terms of the intertemporal commitments they can agree on. Because political exchange is complex and unstructured due to the many actors involved, actors are more likely to exercise veto power or block the work of institutions over which they prevail as they cannot predict distributional consequences. This impacts high requirement reform that necessitates intertemporal commitments that extend beyond their or their opponents' term in office.

"Zero Economic Vision"

As discussed above, Lebanon suffers from high political instability with frequent government changes. In the twenty-seven years since the end of the civil war 1989 until 2016, there have been 17 governments with a total of 453 individual ministerial positions.[34] After 2005, some of these governments only had a caretaker function. These frequent government changes lead to extensive friction losses. For example, institutional knowledge gets lost as actors engage in conscious efforts to prevent successor governments from other parties to reap the political and economic benefits of ongoing work: key experts, studies and proposals are simply withdrawn from ministerial offices

[33] See also Salti and Chaaban (2010).
[34] Authors' calculations, The Monthly (2017).

which extends longs the time for incoming staff to become effective (Interviews, A23). As a Member of Parliament states: “But, the problem is that everyone wants to find a solution at the expense of the others.” (Interviews, A3)

Such impaired transitions of power hamper long-term planning, and the executive is commonly accused of having “zero economic vision” and few strategic plans (Interviews, A19, 20, 21, 28). The absence of long-term planning disincentivizes initiatives aimed at implementing reform with high requirements, which take a relatively longer time to be developed and are likely to be stymied or abandoned by successor governments. Limited exchange across ministries exacerbates the lack of coordinated effort, leading to the emergence of different agendas across ministries and extensive friction losses (Interviews, A30).

“Abusive Authorities”

As the capacities of parliamentary commissions both in terms of technical expertise and manpower are low, complex reform can take up to a decade to be completed. This gives rise to bottlenecks in terms of the technical elaboration of legislative texts (Interviews, A5, A6): the work of the commissions tends not to be supported by sufficiently qualified staff that elaborates legislation on behalf of the Members of Parliament (Interviews, A5). Moreover, the sectarian composition of governmental institutions tends to lower bureaucratic quality due to clientelist structures. For example, hiring processes of civil servants are based on few objective criteria or competency-based job descriptions (Interviews, A30). Lastly, parliamentary work in commissions tends to be carried out with less discipline than needed and on occasions meetings even fail to reach quorum, as rules to punish absentees are “practically never” applied (Interviews, A2, A6).

As a result, political exchange is perceived as unstructured, especially in unity governments which maximize the numbers of players involved in bargaining (Interviews, A30). The interplay of different veto players becomes complex to the extent that political actors commonly refer to the collaboration game as “the system.” As an interviewee states, in an attempt to explain their anti-collaborative behavior in certain areas of service provisioning: “The system forces us to think like this” as it would not permit free expression of ideology (Interviews, A14, A15).

Such unorganized and opaque political exchange gives rise to opportunistic behavior. Actors are more inclined to pull the ‘emergency brake’ in the form of their veto when the distributional consequences of a reform project are not sufficiently clear or balanced. This impacts collaboration on reform of high requirements with higher divergence of policy preferences and which involve more potential veto players. In practical terms, certain actors, such as the heads of parliamentary commissions, exploit their “abusive authority” which is capable of blocking any bill that does not find their consent: They amend the agenda to the extent that it induces an effective paralysis in the institutions over which they preside (Interviews, A5).

Importance of Time-Horizons

The uncertainty about the time-horizons of key actors impedes collaboration on legislation with high requirements. This uncertainty reduces the incentives of key actors to collaborate on reform that extend beyond their own term in office and would, therefore, require intertemporal agreements that are unlikely to be kept (Interviews, A4, A6, A8). Legislation with high requirements is therefore exposed to changing political environments and more likely to be reversed or discontinued. The sense of avoidance of responsibility for concrete action is exemplified by the words of a parliamentarian in response to the question of how the party would tackle the challenges of financial impasse: “Well, I think ... when ... the president of the party, Dr. Geagea, was nominated for presidency, almost three years ago, there was a plan. There was a very clear policy statement that included policies in every single sector. Now, in order to tackle the Lebanese economic problems, it cannot be a linear way of thinking, it must be a systemic way of thinking.” (Interviews, A1)

5.5. Conclusion

This chapter has analyzed the effects of fractionalization on political collaboration on reform in Lebanon and thereby addressed the central research question of this thesis. We have provided a conceptual framework that sheds light on the determinants that facilitate or hinder political collaboration, based on the properties of a reform project. The theory outlined and methodological approach used in the paper reflects the conceptual and methodological discussion in earlier chapters in that it leverages a more nuanced understanding of political collaboration. We argue that these properties of a reform project determine the extent to which fractionalization affects political collaboration on reform. The framework helps to fill a gap in the literature on the political economy of reform by identifying transmission channels by which fractionalization impacts political collaboration on reform (Gören, 2014; Papyrakis and Mo, 2014).

While our analysis provides case study evidence and does not intend to generalize the findings beyond the case of Lebanon, our framework provides the basis for comprehensive comparative approaches. Towards that end, future research should elaborate and refine the institutional requirements across different legal codes and different political settings. We believe that our framework provides a means to further explore the underlying political dynamics of political collaboration on reform in divided societies, in particular power-sharing arrangements, which are a frequently discussed option to appease conflict (ESCWA, 2017).

5.6. Additional Methodological Notes: Interview Evidence

This section provides an overview of the makeup of the interview evidence, the sampling strategy, the sample, and the interview framework. This study draws on accounts of thirty-two expert-interviews with high ranking political actors of all factions in the parliament, within a guideline based, semi-structured interview approach. The interview transcripts are available upon request. The interview sample is designed to capture the viewpoints and narratives of all major factions represented in the Lebanese parliament. Reflecting and merging the narratives about specific contentious political issues of all parties involved facilitates an analysis detached from the subjective ideological realm of the interviewee. The interview framework, therefore, focuses on specific instances of reform currently discussed in the parliamentary debate.

The interviews are based on guidelines with open-ended questions to allow for the free association of the interviewees towards the motives discussed (Hollway and Jefferson, 2000, 2008; Mason, 2002). The interviews are coded and analyzed following the Rubin and Rubin (2005) method of predefined coding structures. The approach requires a definition of the key concepts and themes as well as the relationship between them, based on literature reviews and the elaboration of hypotheses (Rubin and Rubin, 2005, p. 206). The Rubin and Rubin approach is suitable for the analysis since the research questions, hypotheses, and the theoretical framework was laid out before the commencement of the research process.

Interview Sample

The sampling strategy focuses on political actors in their role as active Members of Parliament, former Ministers of State, government officials or high-ranking party members, and reflects the viewpoints of all major political parties. The participants have been chosen according to party affiliation and exposure to, or membership of, the budgetary or economic committee in the parliament. By focusing on political actors on economic and budgetary issues, the sampling ensured that participants could answer questions on financial and socioeconomic issues as their core field of expertise and daily work. What is more, participants of economic and budgetary committees are the actors most likely to comprehend the extent to which economic conditions pose a threat to the current economic order. Lastly and as to be discussed below, the process of introducing laws should originate from initiatives of Members of Parliament that introduce legislative proposals into parliamentary committees. Since parliamentarians often cannot craft legislation themselves, the interview sampling includes members of economic and financial councils of political parties, as well as economists and researchers from ministries and international organizations that support the process of legal drafting.

The central goal of the selection process of interview participants was to obtain the viewpoints of all major factions represented within the parliament and government. That way, we control for ideological and organizational differences in attitudes towards collaboration among parties. The sampling process allows one to establish a coherent picture of each participants' and party's narratives to define the "problem" under consideration (such as economic crisis, income inequality, fractionalization), the problems' respective origins, and the proposed solutions. All interviews have been conducted between February 2017 and March 2018 in Beirut. Table 5-5 provides an overview of interview participants.

Table 5-5: Overview of interviewee affiliation

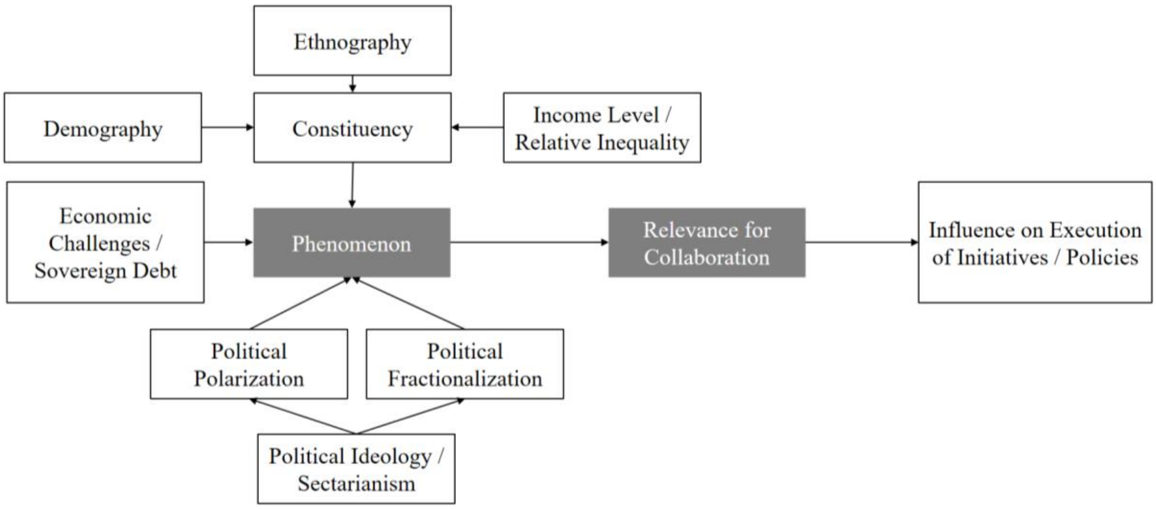
Name	Function	Party / Organization
A1	Member of Parliament	Lebanese Forces
A2	Member of Parliament	Lebanese Forces
A3	Member of Parliament, Ex-Minister	Future Movement
A4	Member of Parliament	Future Movement
A5	Member of Parliament	Free Patriotic Movement
A6	Member of Parliament	Kataeb
A7	Member of Parliament	Kataeb
A8	Member of Parliament	Amal
A9	Ex-Minister of Labor, Telecommunication	Independent
A10	Ex-Minister of Economy and Trade	Independent
A11	Ex-Minister on Culture, Information	Independent
A12	Member of Economic and Social Council	Lebanese Forces
A13	Head of Economic and Social Council	Kataeb
A14	Former Head of Party	Hunchak
A15	Head of Committee on Foreign Affairs	Hunchak
A16	Member of Committee on Foreign Affairs	Tachnaq
A17	Head of Committee on Foreign Affairs	Syrian Socialist Nationalist Party
A18	Leadership Economic Research Council	Hezbollah
A19	Economist	World Bank
A20	Economist	World Bank
A21	Economist	Ministry of Finance, World Bank
A22	Economist	Institut Bassil Fuleihan
A23	Economist, Researcher	Ministry of Social Affairs
A24	Economist, Researcher	International Crisis Group
A25	Professor of Political Science	American University of Beirut
A26	Economist, Researcher	American University of Beirut
A27	Professor of Economics	American University of Beirut
A28	Economist	Independent
A29	Leadership, Financial Operations Department	Banque du Liban
A30	Division Head	Office of the Minister of State for Administrative Reform (OMSAR)
A31	Economist	Ministry of Economy

A32	Former Secretary-General	Lebanese Association Democratic Elections (LADE)

Interview Framework

Figure 6 provides an overview of the interview framework. Fields shaded in dark gray represent the phenomena of interest, namely the phenomenon of differing perceptions of the same set of economic challenges, and the phenomenon of collaboration among political parties.

Figure 3: Interview framework for expert-interviews (own illustration)



The interview framework is structured in four themes. The first theme elicits the narratives and perceptions of the challenges related to economic downturn or financial pressure. Participants were asked to explain how they assess the severity of the economic and budgetary pressures, what they identify to be causes, and which solutions the interviewees personally and, in particular, their party offers to resolve related problems. Lastly, the interviewees were asked to consider the extent to which perceived economic and financial pressures influence their work and potentially facilitate political collaboration.

The second theme focuses on the influence of a party's constituency. In particular, the interviewees were asked to reflect on the extent to which characteristics of their supporter base influence their assessment of specific policy proposals. A tax hike proposal served as a focal point of discussion about the fairness of redistributional measures. Reflecting on the needs of a party's supporter base, in particular with regard to the relative impact of a policy proposal such as the tax hike proposal, then, enables an assessment of the extent to which a party takes relative income inequality into account for their decisions on collaboration.

In the third theme, interviewees were asked to reflect on the impact of fractionalization, that is, the high number of parties involved in negotiations, and political polarization. There are two reasons why these concepts were discussed within the same theme, although their theoretically different transmission channels could have suggested otherwise: a) the question design avoided suggestion as to the origins of polarization; b) interviewees were likely to conflate the two in the same answer. The interviewees, therefore, could indicate in which instances a high number of negotiating partners hinders collaboration, and in which instances these can be overcome. The same applies to the concept of polarization, which the interviewees were asked to define. That way, the interviewees could indicate to what extent geostrategic, sectarian, or other ideological polarization influences the mechanism by which fractionalization and polarization influence collaboration.

Lastly, the fourth theme focused on general patterns of collaboration within the parliament and the committees, in which an interviewee was a member. That way, previous answers could be reflected and contextualized with examples given by the interviewees.

6. OUTSTANDING CONCEPTUAL ISSUES IN RESEARCH ON THE CRISIS HYPOTHESIS: A CRITICAL REVIEW

6.1 Introduction

As discussed in chapter 3, the notion that crises induce policy change has come to be regarded as a 'conventional wisdom' in the literature on the political economy of reform (Tommasi and Velasco, 1996, p. 197; Drazen, 2000). However, both theoretical models and empirical studies have struggled to pinpoint the distinct causal connections that link these two concepts (Mahmalat and Curran, 2018). The interpretation of quantitative models tends to draw linear causal relationships between periods of crises and reform, which might not withstand more detailed scrutiny (Corrales, 1998; Edwards and Steiner, 2000).

This chapter elaborates on the methodological shortcomings in empirical analysis on the crisis hypothesis identified in chapter 3 and discusses their conceptual implications in more detail. I argue that constructivist approaches are potentially better suited to interpret the mechanisms that link crises and reform due to the high degree of uncertainty induced by crises which prevent conclusive interpretations of mechansisms based on rational expectations models. Methodologically, I emphasize that case study research can offer important insights into the mechanisms and extent to which reform is induced by crises by reflecting country-specific socio-economic and political developments in the analysis.

The shortcomings of models that investigate the relationship between crises and reform can be traced back to epistemological aspects of the approaches most commonly used to model the relationship between crises and reform. These approaches – which adhere to a rational expectations school of thought – are predicated on models that seek to generalize the effect that crises exert on policy outcomes, with post-crisis policy change characterized as the outcome of a struggle between interest groups keen to secure distributional preferences and avoid bearing the costs of reform (Alesina and Drazen, 1991; Ranciere and Tornell, 2015). In this characterisation of the crisis-reform relationship, crises elicit predictable behaviour among interest groups – a feature which renders these models ill-suited to the analysis of specific crisis episodes.

Constructivist approaches offer alternative explanations for the mechanisms that link crisis and policy change and, as outlined below, are potentially better equipped to explain crisis-induced policy outcomes (Blyth, 2002, 2007; Widmaier, Blyth and Seabrooke, 2007; Chwieroth, 2010; Mandelkern and Shalev, 2010; Rodrik, 2014). Constructivism explores the relationship between actors and the environment in which they are situated and explains policy outcomes in terms of the prevailing ideas and beliefs of political actors. Constructivists contend that crisis situations are characterized by great uncertainty (as opposed to risk or instability) both in how the crisis-hit economy functions and how the crisis might be resolved. Actors, therefore, cannot determine with certainty their distributional preferences within that crisis situation. Instead, actors must interpret the political or economic realities that confront them and develop their own imperatives in order to guide their actions.[35] This approach is pertinent to the study of policymaking in the context of specific crisis episodes. It characterizes interest group policy responses as developing endogenously from their intersubjective beliefs in what is an uncertain situation, rather than interest groups adjusting their known distributive preferences in response to an exogenous shock.

This chapter proceeds as follows. Section 4.2 critically reviews the literature on rationalist and constructivist approaches on the crisis hypothesis. The section focuses on a specific phenomenon, namely policy divergence in the face of what are similar crises, that exemplifies the pertinence of a constructivist understanding of crises to explain political outcomes. Section 4.3 discusses the importance of case study research in depicting the nature of the crisis-reform relationship. Section 4.4 concludes.

6.2 Crises and Policy Change – The Role of Interests, Ideas, and Power

While the political economy literature has paid significant attention to the relationship between crises and reform, competing schools of thought have emphasized different aspects of this relationship. While the role of distributional preferences has featured prominently among rationalists, constructivists have emphasized the uncertainty facing political actors as they assess both the prevailing crisis and possible policy responses. As outlined below, constructivists call for a greater engagement with the ideas underpinning both a given crisis and policy response in order to explain the mechanisms by which crises induce policy change.

Rationalist Modelling of the Relationship Between Crisis and Policy Change

Rational expectations models that link crisis and policy change focus on the interaction between interest groups, and how this interaction changes during crises based on material interests and distributional preferences. These models posit that actors delay reform as part of a contest over the distribution of the cost of reform. As economic conditions deteriorate, weaker interest groups concede to bearing a disproportionate share of the cost of reform when they realize that the marginal benefits (in terms of political power or economic resources) of waiting have become lower than the marginal cost arising from continued economic distortion (Alesina and Drazen, 1991; Drazen and Grilli, 1993; Ranciere and Tornell, 2015).

[35] For a recent review of ontology underpinning social constructivism, see Hay (2016).

Such rational expectations models provide valuable insights into explaining interest group dynamics in periods of rapid macroeconomic deterioration. Yet, they introduce a number of conceptual ambiguities that make them difficult to adapt for empirical modeling of specific crisis episodes. The amelioration of economic conditions after crises cannot be interpreted merely as the result of concessions of weaker interest groups, as this assumes that the solution to a particular crisis is contested but known. What is more, empirical models based on rational expectations in a quantitative cross-country panel regression setting have proved difficult to operationalize and interpret. In particular, the use of thresholds derived from a deterioration of macroeconomic variables in order to indicate the occurrence of crises is difficult to reconcile with the view that crises are subjective in nature and that the perception of what constitutes a crisis varies significantly across countries (Corrales, 1998; Edwards and Steiner, 2000; Pop-Eleches, 2008; Mahmalat and Curran, 2018). These empirical models, reliant on analysis of comparative statics, require that a similar 'sense of urgency' exists across countries in response to a well-defined deterioration of macroeconomic variables. As crisis experiences differ significantly across countries, comparative statics tell us little about the underlying mechanisms through which crises induce policy change (Scheemaekere, Oosterlinck and Szafarz, 2015).

A characterization of crises which invokes subjective experiences and shared perceptions also impacts upon any characterization of crisis-induced policy response. For example, the onset of crisis conditions may not be sufficient to ensure that pre-crisis policies are perceived to have failed and require change (Pop-Eleches, 2008). Rather than crisis-induced policy change being triggered by a consensus that socio-economic conditions have become unduly harsh, policy change may be dependent on a commonly shared perception that change is needed.

Constructivism and the Role of Ideas as Drivers of Policy Change

How does a common perception for the need of reform translate into policy change? Recent scholarship from actor-centric institutionalism has reexamined the mechanisms by which crises can induce policy change. Rational expectations models neglect a central feature of crises, namely that crises are accompanied by deep uncertainty (as opposed to risk) as to how the economy functions and how to formulate appropriate policies to resolve the crisis (Harberger, 1993; Blyth, 2002, 2007). Crisis situations are qualitatively different from situations of risk in 'normal' times, in which the probability distribution of possible outcomes is known (Blyth, 2002). As Nelson and Katzenstein (2014) put it: "In the world of risk, the assumption that agents follow consistent, rational, instrumental decision rules is plausible. But that assumption becomes untenable when parameters are too unstable to quantify the prospects for events that may or may not happen in the future." (p.362)

This uncertainty as to an actor's own interests can disrupt established orders of power and open the way for alternative mechanisms of change. As Ejdus argues, crises in the form of critical situations can rupture established routines which induces insecurity into the ontology of collective actors. As crises bring "fundamental questions to the level of discursive consciousness", actors are unable to 'bracket out' fundamental questions related to issues such as their existence, autobiography and relations (Ejdus, 2018). These questions produce anxiety and eventually give rise to alternative policy choices as they remove the 'protective cocoon created by routines.' In a similar vein, Blyth argues that in moments of uncertainty caused by institutional failure, institutional choice becomes "underdetermined by structure." In such moments, what matters "are the locally generated 'crisis-defining' ideas at hand rather than simply the ostensible material positions of the actors in question." (Blyth, 2007, p. 761)

An important body of research has highlighted the central role of ideas for policy development in general, and more specifically how crisis-defining ideas can drive policy change in times of uncertainty. Generally, ideas can be defined as "claims about descriptions of the world, causal relationships, or the normative legitimacy of certain actions." (Parsons, 2002, p. 48) As such, ideas "impact the ways policy actors perceive their interests and the environment in which they mobilize." (Béland, 2009, p. 702)

The existing political science literature points to three ways in which ideas influence policymaking.[36] First, ideas play a role in determining the issues that enter a political agenda. As policymakers face cognitive constraints as to the number of topics to attend to simultaneously, they need to focus their attention to the most pressing issues confronting them (B. D. Jones, 2001). Ideas as to what are the most pressing issues thus contribute to specifying the political agenda and constructing the range of socio-economic challenges that a polity faces.

Second, ideas can constitute commonly held assumptions of how the economy functions, which either legitimizes or challenges existing institutions or policies (Hall, 1993; Culpepper, 2008). As Widmaier argues, such assumptions, which initially reduce uncertainty, can subsequently lead to overconfidence and obscure new sources of market power. Subsequently a crisis ensues which makes actors update their assumptions and beliefs and turn to new alternative ideas in order to resolve the new puzzle that they now face (Blyth, 2001, 2002; Widmaier, Blyth and Seabrooke, 2007; Mandelkern and Shalev, 2010; Widmaier, 2016).

Third, new ideas can challenge existing institutional structures by offering a scientific and normative critique to existing policies and institutions. Ideas form public discourse that helps to convince policy

[36] For a review see Béland, 2009. For a more detailed treatment, see also: Hall, 1993; Parsons, 2002; Schmidt, 2002; Blyth, 2010; Béland, Carstensen and Seabrooke, 2016; Carstensen and Schmidt, 2016.

makers, interest groups and the public that change is necessary (Schmidt, 2002). In this way, ideas can lend force to certain policy proposals over others in public discourse. As Carstensen and Schmidt (2016) argue, ideas can be understood as a form of power that political actors (whether individual or collective) can exercise "to influence other actors' normative and cognitive beliefs through the use of ideational elements." (p.321)

Constructivist Explanations of Policy Change After Crises

The emphasis on ideas, as distinct from interests, in shaping political behavior allows one to develop more nuanced explanations as to how crises can induce policy change. Numerous studies highlighted the importance of ideas in explaining how policy change emerges in response to crises. In a study of what have become known as "New Order policies" in Indonesia of the 1960s, Chwieroth (2010) argues that until uncertainty could be reduced in the aftermath of what was a severe economic downturn, persuasiveness of crisis resolution ideas – rather than bargaining and negotiation based on interests – constituted the key mechanism for policy change. Mandelkern and Shalev (2010), in their study of the Israeli hyperinflation period of the 1980s, also emphasize the role of newly constructed ideas in shaping crisis responses. In a comparative study on two temporally distinct attempts to resolve the same crisis, the authors explore the conditions that lend force to one policy proposal over another. The authors show how "knowledge elites" during crises can petition political actors based on their technical of professional expertise rather than their formal authority or material interest.

Similarly, Nelson and Katzenstein (2014) emphasize the role of "social conventions" based on shared templates of understanding that are needed to resolve situations of "substantial uncertainty". Rooted in the work of constructivist scholars of international relations, such conventions can be understood as a means to "organize and coordinate actions in predictable ways," and serve as "agreed-upon, if flexible, guides for economic interpretation and interaction." (Biggart and Beamish, 2003, p. 444) Conventions help simplifying uncertainty as they enable actors to impose classifications schemas and therefore serve as a means of coordination. As Nelson and Katzenstein (2014) discuss, such conventions played a crucial role during the resolution of the 2008 financial crisis.

The Importance of Ideas in Explaining Policy Divergence to Similar Crises

This ideational depiction of the manner in which crisis-induced policy responses emerge becomes important to understand important phenomena that are difficult to explain with rationalist interpretations, such as the reasons for policy divergence to what are similar crises. By exploiting an instance of policy divergence that occurred in the second half of the 19th century within what was then the United Kingdom of Britain and Ireland, I show in Curran and Mahmalat (2019) that politically dominant interpretations of the nature of a crisis – i.e. constructed narratives regarding the nature of a crisis that dominate political discourse among both political actors and the general public – constitute the central mechanism that determines the shape of prevailing policy responses to a given crisis. Politically dominant interpretations of crises lend legitimacy to views and policy proposals of certain political actors over others, which strengthens their position in the political bargain from which the eventual policy response emerges (Matthijs and McNamara, 2015). As a consequence, political actors can exert a greater influence within the policy-making process even in the absence of a shift in the underlying institutional or political configuration of power.

To arrive at this conclusion, we compare the implementation of a specific famine relief policy which was utilised in response to two crises which took place in a similar context but differed significantly in their outcomes: the Great Irish Famine or *An Gorta Mór* (1845-1850), which involved widespread famine, and the Lancashire Cotton Famine (1861-1865), which involved the threat of famine. Both crises took place in similar temporal, political, geographical, and institutional contexts, and both were triggered by external shocks. However, despite the specific famine relief policy under consideration in this paper being proposed in both cases, the ultimate policy outcome differed markedly in each instance.

Our discussion focuses on the political implications, rather than origins of the crises, and follows Widmaier, Blyth, and Seabrooke (2007, p.748) to define crisis not in terms of the material or economic effects but rather as an event which agents inter-subjectively interpret as necessitating change. Based on this definition, both the actual occurrence and the threat of widespread crisis warrant study along the same analytical dimension, as both induced uncertainty as to which policies or institutional structures were best suited to alleviate crisis conditions (Braun, 2015).

In our case study, the politically dominant interpretations in question focus on the degree to which social groups were characterized as contributing to the onset or perpetuation of the crisis. We find that when crisis-hit regions or social groups are marginalized and become portrayed as contributing to the worsening crisis conditions, these groups are granted little influence in the formulation of policy responses. However, if regions or social groups are portrayed as an integral part of society who have had the misfortune to be struck by an unforeseeable crisis, they may be afforded a significantly higher level of influence on the process of policy formulation.

The policy proposal in question was the *Rate-in-Aid*, a temporary levy placed on all Irish poor-law unions in order to raise funds to support indebted unions. The Rate-in-Aid was implemented in the Irish case despite strong parliamentary and extra-parliamentary opposition. However, the legislation that emerged in the Lancashire case accommodated those opposing the Rate-in-Aid mechanism by allowing for an alternative, less onerous, relief mechanism which granted poor-law unions the power to borrow funds repayable from their future tax revenue. Although both crises were triggered by exogenous shocks, the politically dominant interpretations that formed around these crises differed sigificantly. The Irish famine was characterized in this dominant interpretation as being exacerbated by endemic socio-economic problems related to the organisation of agricultural economic activity, while the Lancashire Cotton Famine was perceived as being of a temporary nature and the result of an unforeseeable economic disruption to what was an industrial powerhouse. Consequently, local interest groups in the Lancashire context were granted a level of influence in shaping the reform responses that was unheard of in the Irish case. While a rationalist interpretation of the Rate-in-Aid policy might emphasize the incentives for the most powerful group to shift the financial burden of famine relief to a weaker group, such burden shifting only became possible once a dominant narrative was constructed that accommodated such a policy approach.

6.3 The Merit of Case Study Analyses

In light of the complex interrelationship between crises and reform, case study analyses can offer important insights into the mechanisms that connect the two. Case studies are found to be a suitable means to explore heretofore unobserved causal mechanisms between variables "because they are not limited to the variables or measures of complex concepts that appear in preexisting datasets" (Gerring, 2007; Weller and Barnes, 2014, p. 4).

Such analyses can reflect the political and institutional framework in which reform processes are initiated, which plays an essential role in both enabling de facto implementation of policy reform and precluding their reversal (Williamson and Haggard, 1994; Corrales, 1998; Edwards and Steiner, 2000). While crisis conditions may induce governments to initiate reform processes, it is by no means certain that proposed reforms will ultimately be implemented (in whole or in part).

In this regard, Campos, Hsiao, and Nugent (2010), as well as Tornell (1998), find political crises to be even more important determinants of reform than economic ones, calling for increased research activity in this direction. Related to this, literature is divided over assessing the complex interrelationship of political factors and interest group behaviour during crisis. As Drazen (2009) points out, the influence of interest groups might actually become stronger in a crisis situation. Whereas interest group opposition to reform may even have contributed to the emergence of a given economic or political crisis, the very same groups are often needed to mitigate the repercussions of a crisis since their expert knowledge is of great import.

On the methodological front, empirical studies that adopt a cross-country macro-level modelling strategy tend to fail to capture the nuances of the reform process. Reform processes may vary in their required timeframe for elaboration and implementation: while stabilization measures to counter, say, hyperinflation may be implemented rather rapidly, more complicated reforms, such as labour market or health care reforms, are likely to be subject to more societal resistance and hence require a lot more preparation and time, especially for governments with constrained resources (Naim, 1995). Furthermore, it may not be the case that all reforms undertaken in a given time period are directly attributable to a specific crisis.

As I illustrate in Curran and Mahmalat (2016), these nuanced aspects of the reform process might be better served at a detailed case-study level of analysis rather than at a macro level. In the paper, we explore the extent to which socio-economic developments in the aftermath of the Great Irish Famine (1845-1850) can be regarded as a direct response to the famine onslaught, as opposed to being part of the broader incremental socio-economic evolution of that era which may merely have been expedited by famine-era distress. Specifically, we analyse the reform of the Irish Poor Law in 1862 in order to assess the imprint of famine experiences on this process.

The aim of the paper is to gain insights into whether this reform process should be characterised as a direct response to the famine onslaught, or instead characterised as being part of the broader incremental socio-economic evolution of that era. In order to explore this issue, we undertake a text analysis of archival material, such as expert witness testimony provided to the Select Committee on Poor Relief (Ireland) 1861 as they compiled the report which would form the basis on the 1862 legislation, parliamentary debates preceding the 1862 legislation and the contemporary reportage of Irish newspapers surrounding the Irish Poor Relief Act (Ireland) 1862. This text analysis allows us to identify the extent to which famine conditions of 1845-50 are referenced in these documents and to assess the prominence famine-era experiences in driving the reform process.

We find that the 1862 poor law reform has borne little reference to the famine crisis that preceded it, despite having made apparent the need to change the existing framework of famine relieve. More generally, we suggest that research into the aftermath of crises would be well advised to distinguish between post-crisis economic recovery and post-crisis economic (or socio-economic) reform. Economic recovery in itself is not necessarily indicative of purposeful reform initiatives implemented as a consequence of crisis-period experiences. With this conclusion, we follow similar case study analyses on the debt crises in Latin America of the 1980s and 1990s that show only a limited connection between specific reform episodes and crisis conditions (Williamson and Haggard, 1994; Corrales, 1998; Edwards and Steiner, 2000).

6.4 Conclusion

This chapter has discussed the need for incorporating constructivist interpretations of crises into empirical analyses of the relationship between crises and reform. Methodologically, we emphasize the merit of case study approaches to reflect the nuances of the ways in which crises determine political outcomes. The chapter has illustrated these arguments with evidence from previous studies.

The arguments of this chapter echo in more detail the argument outlined in chapter 2 and 3, namely that empirical analyses should be creative in finding methodological approaches that enable a more nuanced interpretation of the concepts of crisis and reform. As the ambiguous results in extant literature exemplify (chapter 3), generalized conclusions about the relationship between crises and reform should be formulated with caution.

7. CONCLUDING REMARKS

This thesis aimed to contribute to one of the fundamental questions in the literature on the political economy of reform: which institutional and socio-economics factors impact political collaboration on reform? I have departed from the observation that, in countries such as Lebanon, there exist differing outcomes of political collaboration on reform across policy areas and time despite a similar configuration of political power. Theoretical approaches fail to sufficiently explain such variation, as they tend to model the delay or adoption of reform with distributional conflict as a function of the degree to which a country is polarized and fractionalized, not the variation across policy areas. Moreover, I have identified that empirical models in cross-country regression analyses offer limited additional insights into the phenomenon of political collaboration when reform indices are used.

In the preceding chapters, I have addressed these challenges and developed both a methodological and a theoretical approach to explain observable variation in legislative activity, that is, political collaboration, in fractionalized polities. On the methodological end, the thesis discussed and analyzed a novel dataset on legislative activity that allows a researcher to circumvent the use of reform indices. The creation of the data set itself is an important contribution to understanding policymaking in Lebanon, as well as general to the understanding of political processes in fractionalized, developing countries with limited resources.

Agenda setting in developing countries remains understudied (John, 2006). At the time of this writing, in the Comparative Agendas Project,[37] for example, only Brazil and Turkey are covered as developing country, while all other countries are from the group of OECD states (Walgrave, Varone and Genève, 2008; Baumgartner *et al.*, 2009; Chaqués-Bonafont, Palau and Baumgartner, 2015). In particular, no Arab country is included. Established theories of agenda setting are subsequently derived from developed countries that have the resources for the parallel processing of issues as well as a polity in which actors are susceptible to electoral incentives. The creation of the data set for the case of Lebanon therefore allows for the provision of novel insights into agenda setting in fractionalized countries with limited resources, and in which electoral incentives cannot fully structure political life.

By using legislation data as a key dependent variable rather than aggregate reform indices or the amount or quality of public goods, I make a theoretical contribution and depart from extant research in two important ways. First, the analysis treats the concept of reform as a multi-layered concept that enables a differentiation between issuing institutions, policy areas and other characteristics and

[37] As introduced in chapter 4, the Comparative Agendas Project provides data set of legislative activity, coded according to a dedicated methodology that makes the political agendas of governments comparable across countries. For more information, see: comparativeagendas.net.

thereby makes possible more sophisticated conclusions about the phenomena under investigation, that are, political collaboration and reform. As discussed throughout this thesis, measures of political outcomes based on both public goods provisioning and reform indices is inherently restricted in scope as they focus on specific policy areas or regulatory changes at the expense of others.

Second, the analysis in this thesis refines the scope of recent empirical work by focusing on the institutional setting in which collaboration takes place. Much of the analyzes of the effects of fractionalization are conducted by investigating the impact of fractionalization in the country as a whole, and not just governmental institutions (for example Kyriacou, 2013; Finseraas and Jakobsson, 2012; Alesina, Michalopoulos and Papaioannou, 2016, Görens, 2014). Beach and Jones (2017) offer one of the few recent and important contributions to this field by determining the effects of greater diversity in governments on the provisioning of public goods. Using the example of city councils in California, the authors show that higher diversity leads to disagreement within the council, which eventually leads to lower spending on public goods.

The theoretical work in this thesis offers a perspective on political collaboration that reflects not only the degree of disagreement over specific decisions, such as sending on public goods as in Beach and Jones (2017). Future research can instead indicate the policy areas and specific decisions on which political actors can achieve agreement despite fractionalization. Because legislative activity represents the outcome of a collaboration game in which major political actors, veto players in particular, have come to an agreement, an analysis of legislation offers an alternative, positive view of political collaboration. Rather than indicating specific areas in which disagreement impedes collaboration, the approaches outlined in this thesis indicate how analyses based on legislation data can help researchers to identify areas of political life in which agreement is nevertheless possible and on which actors place their priorities.

In Mahmalat and Chaitani (2019), for example, I show that in the Lebanese case, political collaboration on policy areas related to banking and financial institutions are unaffected by political paralysis that otherwise leads to significant downturns in legislative activity in other policy areas. This is because banks constitute an important mechanism of rent distribution and therefore serve as a mechanism of elite integration that makes actors collaborate more easily. As shown within this study, systematic analyses of the policy areas in which actors are more likely to collaborate provides novel insights into the way the political economy of countries functions.

I hope that these considerations and approaches will prove fruitful to guide future research. The thesis has identified a set of gaps in the literature that warrant further scrutiny and has offered methodological and theoretical approaches to address them. Gaining further insight into the mechanisms of political collaboration is of curial importance for development practitioners in particular, who rely on an accurate understanding of policymaking processes.

Therefore, continuing this line of research bears important policy relevance. First, a more accurate understanding of political collaboration will significantly increase political accountability of developing countries' political elites by exposing policymaking processes to the public. As existing statistical capacities and legislation on accountability in developing countries are often either insufficient or not applied in practice, such research will constitute a major advancement in the efforts to devise accountability mechanisms and increase the quality of legislative processes.

Secondly, analyzing political collaboration based on the theory outlined in this thesis, agenda setting theory in particular, will help increasing the success rate of both international assistance programs and civil society activities. As discussed in chapter 4, agenda setting is a central aspect of policymaking and its theory helps researchers and analysts to understand which issues are up for decision making in the first place and why. Analyzing agenda setting, then, enables an assessment of the characteristics and implications of a country's institutional setup. As Schattschneider (1960) noted in his seminal work policymaking in the United States, "[o]rganization is the mobilization of bias." (p.71). The exercise will hence enable the identification of issues to which a given polity is inherently more or less receptive than to others. By identifying these issue areas, such research will provide guidance on the issues on which international assistance as well as domestic political pressure can increase their impact.

Lastly, the approaches outlined in this thesis help to characterize the subnational capacities of individual formal institutions, such as line ministries. By tracing the quantity and quality of legislation from legislative institutions the data and theory enables a capacity assessment based on objective rather than indirect (economic) indicators. Such indirect indicators are usually influenced by a number of confounding variables, while legislation data provides a direct assessment of the outcome of a legislative process.

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