Japanese Journal of Political Science 9 (3) 305–322
doi:10.1017/S1468109908003150

Executive–Legislature Divide and Party Volatility in Emergent Democracies: Lessons for Democratic Performance from Taiwan

O. FIONA YAP*
Associate Professor, Department of Political Science, University of Kansas, Lawrence KS
fyap@ku.edu

Abstract

Are new democracies with divided government and volatile parties politically ill fated? The literature suggests so, but cases of emergent democracies such as Taiwan and Brazil that face both conditions defy the prediction. This paper explains why: party volatility follows from pursuing distinct executive and legislature agendas under divided government; the political ambition that underlies these conditions sustains democratic and even political performance. We evaluate the argument through government spending in Taiwan. The results corroborate our expectations: they show more parties composing the legislature as government spending favors an executive agenda and neglects a legislative welfare-spending agenda. The findings make three contributions to the literature: first, they reveal a political divide between executive and legislature rather than ideological parties to undercut concerns regarding performance. Second, they demonstrate that the strategic use of government spending to institutionalize party development along an executive agenda fuels party fragmentation. Third, they show that legislators split, switch, or create alternative routes to office in reaction to strategic spending to underscore that ambition underlies party volatility and divided government.

What are the effects of divided government and party volatility in emergent democracies? This is a timely question: the last three decades have seen a wave of new democracies that frequently face both conditions; that is, they adopt presidential or semi-presidential constitutional arrangements, which may lead to divided governments and witness party systems that are volatile and fragmented (see also Cheibub and Chernykh of this issue). Unfortunately, the prognosis from the extant literature is not

* A previous version of this paper was presented at the workshop on "Governability across Regime Types" held at the University of Edinburgh, October 2007. We thank the reviewers, Takashi Inoguchi, Junko Kato, Jose Cheibub, Robert Elgie, Carol Mershon, Youngmi Kim, Glen Hook, and participants at the workshop for their helpful comments and suggestions. The responsibility for all errors remains with the author.

good: studies contend that divided governments witness political muscling between parties that control the executive versus those in the legislature that end in gridlock while party volatility erodes accountability that underpins effective governance.[1] Each to its own, then, is seen as a pathology that undermines political and democratic performance so that, by the literature, new democracies with a confluence of the two are not generally given odds for political or democratic survival. It is curious, then, that emergent democracies such as Taiwan or Brazil with both conditions defy these prospects to march doggedly along political and democratic development.[2]

This paper explains why predictions of political or democratic weakness are not borne out. In particular, we draw upon recent findings on executive–legislature relations and party development to offer the following interpretation: party volatility represents legislators' strategic response to distinguish from the executive agenda under institutional separation of powers. That is, party volatility occurs as ambitious legislative and executive candidates or officials split, switch, merge, or start parties as they adapt to new found institutional eminence while divided government arises with the upsurge of parties on account of this ambition (see also Mershon; Kato and Kannon of this issue).[3] This interpretation relaxes the central assumption – that parties are stable and constant – which drives the treatment of divided governments and party volatility as emblematic of hostile ideological obstructionism that progressively and irreparably break down political and democratic performance (see also Mershon of this issue).[4] It also explains why political and democratic performance are not always jeopardized: the ambition that underlies volatility or divided government means that elected officials who want to stay in office cannot afford slack in these areas (see also Kato and Kannon; Mershon of this issue).[5]

[1] See G. Bingham Powell Jr, 'Party Systems and Political System Performance: Voting Participation, Government Stability and Mass Violence in Contemporary Democracies', *American Political Science Review*, 75 (4) (1981): 861–79; M. Stephen Weatherford, 'Responsiveness and Deliberation in Divided Government: Presidential Leadership in Tax Policy Making', *British Journal of Political Science*, 24 (1) (1994): 1–31; Michael Laver, 'Divided Parties, Divided Government', *Legislative Studies Quarterly*, 24 (1) (1999): 5–29; Gary Reich, 'Coordinating Restraint: Democratization, Fiscal Policy and Money Creation in Latin America', *Political Research Quarterly*, 52 (4) (1999): 729–51; Simon Hix, Abdul Noury, and Gérard Roland, 'Power to the Parties: Cohesion and Competition in the European Parliament, 1979–2001', *British Journal of Political Science*, 35 (2) (2005): 209–34; Marcus Kreuzer and Vello Pettai, 'Political Parties and the Study of Political Development: New Insights from the Postcommunist Democracies', *World Politics*, 56 (4) (2004): 608–33; Steven Levitsky and Maxwell A. Cameron, 'Democracy without Parties? Political Parties and Regime Change in Fujimori's Peru', *Latin American Politics and Society*, 45 (3) (2003): 1–33.

[2] See Argelina Cheibub Figueiredo and Fernando Limongi, 'Presidential Power, Legislative Organization, and Party Behavior in Brazil', *Comparative Politics*, 32 (2) (2000): 151–70; O. Fiona Yap, 'Agenda Control, Intraparty Conflict, and Government Spending in Asia: Evidence from South Korea and Taiwan', *Journal of East Asian Studies*, 6 (1) (2006): 69–104; Gary Reich, 'Constitutional Coordination in Unstable Party Systems: The Brazilian Constitution of 1988', *Constitutional Political Economy*, 18 (3) (2007): 177–97.

[3] See William Heller and Carol Mershon, 'Party Switching in the Italian Chamber of Deputies, 1996–20', *Journal of Politics*, 67 (2) (2005): 536–59.

[4] See Marcus Kreuzer and Vello Pettai, 'Political Parties'.

[5] See Gary Reich, 'Cordinating Restraint', and Argelina Cheibub Figueiredo and Fernando Limongi, 'Presidential Power'.

To evaluate the argument, we consider government spending in Taiwan between 1975 and 2004, that is from pre- through post-democratization periods.[6] Taiwan promises useful insights: like many emergent democracies, the nation faces a fragmented party system while its constitutional choice of semi-presidential system following democratization has given rise to divided government. Yet, the nation remains steadfast to democratic performance and even changed its electoral system to ensure political performance.[7] We focus on government spending because it is one of the most important pieces of legislation passed in any year that reveals the executive or legislature's agendas as responses to constituency demands. Also, studies show that allocations are manipulated for electoral advantage; thus, an examination of spending decisions during election years reveals which agendas are preserved or side stepped. The examination from pre-democratization spending provides a benchmark for comparing legislators' responses when institutional separation of powers was absent after democratization.

What do we expect to find? Four results, in combination, support the argument that ambition underlies party volatility and divided government: First, we expect that government spending supports the executive's priorities, typified by defense spending, especially in presidential election years.[8] We expect this to hold true pre-democratization because of the strong executive during that period; we also expect that it holds post-democratization because the executive remains preeminent in budgetary decisions in Taiwan. Second, we expect an absence of increases in social and welfare spending, which generally depict a legislative agenda in legislative election years.[9] Such a finding underscores that party development is organized as an executive party at the expense of the legislature, so that legislators find their political survival compromised. Third, the ruling party in the legislature benefits from increases in social welfare spending allocations and loses when social welfare distributions fall. Fourth, the number of opposition parties in the legislature is negatively related to social

[6] We are constrained in the start and end dates of the dataset because of reliance on a key variable, change in the legislative seats held by the executive party, obtained from Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh, 'New Tools in Comparative Political Economy: The Database of Political Institutions', *World Bank Economic Review*, 15 (1) (2001): 165–76.

[7] See Joseph Wong, 'Deepening Democracy in Taiwan', *Pacific Affairs*, 76 (2) (2003): 235–60; O. Fiona Yap, 'Agenda Control', and Benjamin Reilly, 'Electoral Systems and Party Systems in East Asia', *Journal of East Asian Studies*, 7 (2) (2007): 185–203. We note that political performance in Taiwan was especially troubling between 2004 and 2008; however, this is largely attributed to Chen Shui Bian's particular presidency and his administrative and political mishaps, missteps, and corruption troubles rather than systemic problems. See, for instance, Steve Chan, 'Taiwan in 2005: Strategic Interaction in Two-Level Games', *Asian Survey*, 46 (1) (2006): 63–8 and Yun-han Chu, 'Taiwan in 2006: A Year of Political Turmoil', *Asian Survey*, 47 (1) (2007): 44–51.

[8] See O. Fiona Yap, 'Agenda Control', and Kent Eaton, 'Parliamentarism versus Presidentialism in the Policy Arena', *Comparative Politics*, 32 (3) (2000): 355–76. Eaton cites studies of Japan and the US and concludes that national defense is a public good that executives 'take responsibility for shaping' (366). We follow the literature to consider that civilian spending represents the allocation of particularistic benefits for legislators' constituencies; while defense spending, a national public good, typically falls within the executive's purview.

[9] See Gary Reich, 'Coordinating Restraint', and James Lebovic, 'Spending Priorities and Democratic Rule in Latin America', *Journal of Conflict Resolution*, 45 (4) (2001): 427–52.

welfare spending, that is they increase when social welfare spending decreases and the converse is true when social welfare spending increases. Together, these findings demonstrate the pursuit of party development as an executive party in Taiwan, shows that it comes at the legislators' expense, and reveals that party volatility follows as ambitious candidates and elected legislators react by splitting, switching, or creating alternative routes to office.

The results from statistical analyses largely substantiate our expectations. They are evaluated for structural breaks between pre- and post-democratization periods, serial correlation problems, and unit-root biases and corrected where relevant; thus, we are confident that the findings are robust. In particular, defense spending is preeminent since pre-democratization periods during presidential election years while social welfare spending is not statistically different or significant between pre- and post-democratization periods or election years. These findings veer from government spending studies that generally find that defense spending decreases while social and welfare spending increases following democratization in response to populist demands. The results also show that increases in social welfare appropriations significantly improve the electoral success of the ruling party in the legislature while decreases expand the number of opposition parties in the legislature. Clearly, ambitious legislators react to the executive's failure to increase social welfare appropriations during election years.

The findings here corroborate that party volatility results from political ambitions for the legislative and executive offices as candidates leave, split, switch, or start new parties to improve electoral advantages. While we do not provide systematic findings of the effects of ambition on political or democratic performance in this paper, two anecdotal observations that are discussed in the conclusion and other papers in this issue, notably Elgie and McMenamin; Kato and Kannon; and Mershon, show that this ambition ensures political and democratic performance remain largely on track.

In the following, we discuss the literature to situate our argument, provide the background to spending decisions in Taiwan, describe the analytical tests, present the results from statistical evaluations, and conclude with a discussion of the implications of the findings.

The existing literature

A large literature shows that executive–legislature relations – in particular, divided versus unified government – affect policymaking and outcomes.[10] At one end, divided government, such as in American politics, points to power tussles between the executive and the legislature because of their independent sources of authority that may enhance incentives to check or even cause deadlock over policymaking and outcomes. At the other end, unified government, widely assumed in the study of parliamentary politics, posit successful executive–legislature cooperation on policy performance and

[10] See G. Bingham Powell Jr, 'Party Systems', M. Stephen Weatherford, 'Responsiveness and Deliberation', and Simon Hix *et al.*, 'Power to the Parties'.

outputs because their interdependent political survival is enhanced by strict party discipline.

Recent studies, however, question the assumption of the party as a unitary actor, that fuels conclusions regarding political antagonisms under divided government and cooperation under unified government. In particular, studies show that the realities of politicking may lead to negotiations and accommodations over time to overcome conflict between the executive and legislature even under divided governments.[11] In the same vein, ambitious politicians are unlikely to cooperate even in a system of unified government if the incentives for departing from the party line are higher.[12] These studies underscore the need to consider the incentives for the individual candidate or elected official to cooperate or challenge the goals of the party.

Relatedly, the literature on political party development has moved to consider broadly how political parties develop or institutionalize winning strategies.[13] Traditionally, studies have focused on party development in terms of accountability and responsiveness under varied electoral systems.[14] However, recent efforts consider that political parties, driven by the motivation to win office, may lead rather than react to the electoral system or electorate. Thus, changes in electoral identification or rules may be preceded by changes in the party's organization or its identification and development of new priorities.

Importantly, this means that parties may define or institutionalize their winning strategies into the organization to actively shape how party resources are used and where to compete for office. In this process, parties also influence the environment within which they compete for power, including defining or realigning party support in the electorate for their party members. Thus, the treatment relaxes previous assumptions of party development as reactive and shows that party development directly affects resources and the incentives for party members.

These developments go hand-in-hand to fundamentally challenge the core assumption that political and democratic performance is achieved through stable and constant parties, comprised of ideological politicians. Instead, they point to one motivation – political ambition or winning office – that drives individual politicians and political parties and also leads to the pursuit of political and democratic performance. Our argument builds on this motivation.

[11] See Carlos Pereira, Timothy J. Power, and Lucio Rennó, 'Under What Conditions Do Presidents Resort to Decree Power? Theory and Evidence from the Brazilian Case', *Journal of Politics*, 67 (1) (2005): 178 – 200.

[12] See Michael Laver and Kenneth Benoit, 'The Evolution of Party Systems between Elections', *American Journal of Political Science*, 47 (2) (2003): 215 – 33; William Heller and Carol Mershon, 'Party Switching'.

[13] See Shaun Bowler and David Lanoue, 'New Party Challenges and Partisan Change: The Effects of Party Competition on Party Loyalty', *Political Behavior*, 18 (4) (1996): 327 – 43; Sheri Berman, 'The Life of the Party', *Comparative Politics*, 30 (1997): 101 – 22; Hans Stockton, 'Political Parties, Party Systems, and Democracy in East Asia: Lessons from Latin America', *Comparative Political Studies*, 34 (1) (2001): 94 – 119; Anna Grzymala-Busse, 'Coalition Formation and the Regime Divide in New Democracies: East Central Europe', *Comparative Politics*, 34 (1) (2001): 85 – 104; and Marcus Kreuzer and Vello Pettai, 'Political Parties'.

[14] See, for example, Steven Levitsky and Maxwell A. Cameron, 'Democracy without Parties?'.

The theory

Specifically, we draw on these recent advances to raise the question: how do ambitious politicians behave in emergent democracies? Emergent democracies are significant in at least one respect: the period during which procedures and rules regarding behaviors and institutions take shape offers a window for new players to enter or old players to reinvent themselves in the policymaking arena.[15] Given the incumbency advantage as democracies mature, we expect ambitious candidates to seize opportunities to establish political footholds to ensure their survival.

Our argument develops as follows. Ambitious candidates and elected representatives to the executive and legislature prefer to survive politically and stay in office.[16] To do so, they define agendas that meet their constituency demands. Constituency support for the executive is distinct from the legislature: executives are generally accountable to a national constituency, while legislative support is typified by particularistic constituency concerns on welfare and social programs.[17] This executive–legislature agenda divide exists irrespective of united or divided government; that is, it is not shepherded by divided government. It also exists prior to democratization, although the divide is likely buried, silenced, or coopted under one-party dominated or military-supported systems, where executives dominate policymaking.

Nevertheless, democratization provides new political muscle to the legislature and opens up venues other than the executive for the politically ambitious.[18] Democratization, then, dramatizes the distinct agendas for the different constituencies, which also ramifies upon party development and how party platforms and policy outputs define or institutionalize electoral strategies for the executive versus legislative offices.[19]

By this theory, party volatility occurs as 'ambitious' legislative and executive candidates or elected officials split, switch, merge, or start parties to define and pursue distinct agendas to satisfy their constituencies and facilitate political survival. As these changes to the parties occur, the probability of divided governments increases; however, because both divided government and party volatility derive from political ambition rather than an entrenched ideological divide, they do not presage policy gridlock or

[15] See Gary Reich, 'Coordinating Restraint'; Goldie Shabad and Kazimierz M, Slomczynski, 'The Emergence of Career Politicians in Post-Communist Democracies: Poland and the Czech Republic', *Legislative Studies Quarterly*, 27 (3) (2002): 333–59; Margit Tavits, 'The Development of Stable Party Support: Electoral Dynamics in Post-Communist Europe', *American Journal of Political Science*, 49 (2) (2005): 283–98.

[16] We make argument regarding why politicians prefer to stay in office, that is we do not distinguish between those that prefer to stay in office for the coffers from office or to make policies.

[17] See O. Fiona Yap, 'Agenda Control'; Jeff Yates and Andrew Whitford, 'Institutional Foundations of the President's Issue Agenda', *Political Research Quarterly*, 58 (4) (2005): 577–85; Kent Eaton, 'Parliamentarism versus Presidentialism'; Argelina Cheibub Figueiredo and Fernando Limongi, 'Presidential Power'.

[18] See William Heller and Carol Mershon, 'Party Switching', and see Michael Laver and Kenneth Benoit, 'The Evolution of Party Systems'.

[19] See Hans Stockton, 'Political Parties'.

democratic weakness.[20] In the next section, we describe how resources relate to party development and the institutionalization of winning strategies in Taiwan.

Party development in Taiwan

Taiwan offers interesting study in part because of its transition from a one-party dominated political system to democracy. This section provides a brief overview of the major parties to show how resources and spending allocations are used towards party development in Taiwan.[21] We also, using the budgetary process, show how the executive dominates appropriation decisions; thus, spending decisions in Taiwan are particularly illuminative of conciliation or single-mindness in the executive. In the following, we discuss briefly the relevance of government spending before turning to party development in Taiwan specifically.

That spending allocations are used to improve electoral fortunes is clear: a large literature shows that government spending is manipulated to demonstrate constituency responsiveness to improve electoral fortunes in democracies.[22] A smaller set shows that constituency responsiveness is not limited to democracies: governments in less-democratic regimes also strategically respond to constituency demands to survive politically.[23] Indeed, evidence shows that even where executives dominate policymaking in the less-democratic periods, spending distributions are used to reward the executive party in the legislature or provide spending earmarks to ensure constituency support for the party in the legislature.[24]

Democratization likely increases the relevance of government spending to electoral success as well as party development for two reasons. First, transparency demands and new rules over the control and use of political funds and patronage increase the utility of alternative funding, such as government spending. Second, studies also show that

[20] See also Jeff Yates and Andrew Whitford, 'Institutional Foundations', and Argelina Cheibub Figueiredo and Fernando Limongi, 'Presidential Power'. Another way to consider this is: just as the executive–legislature divide existed prior to democratization without impeding political liberalization, the same divide does not indicate democratic weakness following democratization.

[21] This is not to suggest that smaller parties are unimportant; rather, it reflects the tack that parties are constituent parts of the party system and a focus on the larger parties, which usually have longer histories, is more generalizable.

[22] See Edward Tufte, *Political Control of the Economy* (Princeton, NJ: Princeton University Press, 1978); James E. Alt, 'Political Parties, World Demand, and Unemployment: Domestic and International Sources of Economic Activity', *The American Political Science Review*, 79 (4) (1985): 1016–40; William Keech, *Economic Politics* (New York: Cambridge University Press, 1995); Gary Reich, 'Coordinating Restraint'; Hyeok-yong Kwon, 'Economic Reform and Democratization: Evidence from Latin America and Post-Socialist Countries', *British Journal of Political Science*, 34 (2) (2003): 357–68.

[23] See Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley, CA: University of California Press, 1987), Robert Bates, *Markets and States in Tropical Africa* (Berkeley, CA: University of California Press, 1981); Yi Feng (with Margaret Huckeba, Son Nguyen T., and Aaron Williams), 'Political Institutions, Economic Growth, and Democratic Evolution: The Pacific Asian Scenario', in Bruce Bueno de Mesquita and Hilton Root (eds), *Governing for Prosperity* (New Haven: Yale University Press, 2000); Hyeok-yong Kwon, 'Economic Reform'.

[24] See O. Fiona Yap, 'Agenda Control'.

government spending is used to demonstrate constituency responsiveness in new democracies; in fact, the executive and legislature may be unwilling to contain expenditures or more willing to defer hard choices involving programmatic government spending to show responsiveness.[25] Thus, government spending reveals how agendas are pursued or if the priorities of one branch of the government dominate or displace those of another.

In Taiwan, party resources and government spending are used in the major parties in Taiwan to cultivate loyalty and control opposition to party development even prior to democratization. With democratization, the increased scrutiny of the source of party funds for the Kuomintang (KMT) party and the limited resources for the Democratic Progressive Party (DPP) fed a convergence on to government spending as a funding source for party development.

Consider the KMT party, which dominated Taiwan's political development prior to democratization. Within the KMT, the hierarchical party organization allowed the executive as party leader to distribute electoral patronage and largesse to successfully ensure discipline and loyalty to the executive. In conjunction with restrictions on group activity and political participation, coercion, imprisonment, and the suspension of national elections, which limited the organization of coherent oppositions, the party successfully muted or coopted local leaders or incipient opposition until the 1980s.[26] The change in the electoral landscape in 1987 significantly altered the KMT executive leader's control over party loyalty and development in Taiwan. In particular, political liberalization and democratization meant the executive no longer held all the electoral chips or could successfully dispense political favors or elected offices. Thus, in contrast to the muted and episodic disagreements prior to democratization, there were open challenges against the KMT executive over issues that defined the party's agenda for developing popular support. These led to public intra-party fighting and fueled party splits in the KMT.[27] Indeed, the decrease in KMT's political resources paralleled an increase in disagreements over the executive leader's political strategies for party development and choice of political successor that culminated in the defections of James Soong and his supporters in 1999 and 2000 to form the People First Party.[28]

Likewise, the DPP, the opposition party until it won the presidency in 2000, relies on resources and funding to control dissent over party development, even though its limited resources to use as patronage to improve electoral advantage for ambitious

[25] See Gary Reich, 'Coordinating Restraint', and Lipseyer, Christine, 'Parties and Policy: Evaluating Economic and Partisan Influences on Welfare Policy Spending during the European Post-Communist Transition,' *British Journal of Political Science* 32 (4) (2002): 641–61.

[26] See Bruce Dickson, 'The Kuomintang before Democratization: Organizational Change and the Role of the Elections', in Hung–Mao Tien (ed.), *Taiwan's Electoral Politics and Democratic Transition* (New York: M.E. Sharpe, 1996); Tun-jen Cheng and Stephan Haggard, 'Democracy and Deficits in Taiwan: The Politics of Fiscal Policy', in Stephan Haggard and Mathew McCubbins (eds), *Presidents, Parliaments, and Policy* (New York: Cambridge University Press, 2001).

[27] See O. Fiona Yap, 'Agenda Control'.

[28] See O. Fiona Yap, 'Agenda Control'.

supporters or to discipline errant candidates put it at a major disadvantage.[29] The DPP has its beginnings in the 'dangwai', literally outside-the-party, movement in the 1970s, which rose to articulate demands for democracy.[30] As a marginalized opposition, the party united its diverse members, drawn across a wide social, intellectual, and economic spectrum, in two ways: through a hierarchical, Leninist-styled party organization, and the single-minded pursuit of democratization. With electoral success, the difficulties of reconciling the disparate party agendas into a single platform surfaced into open conflict in the party.[31] Indeed, confrontation over party leaders' party organization and development strategies are frequently public and hostile. Open fighting over party nominations for electoral seats persist through almost every election, while lackluster election results have led to regular turnovers in DPP chairs and party splits, such as in 1990 when members split to form the Chinese Social Democratic Party and the high-profile 1996 splinter to form the still-active Taiwan Independence Party.[32]

The discussion reveals the relevance of resources to party development and discipline in the two major parties. Given resource constraints and the executive's primacy in spending decisions under the Taiwan constitution, the executive may use government resources and spending allocations to institutionalize strategies to reduce dissent and also to influence party development. The executive in Taiwan controls the budget and caps disbursements in three ways: first, the executive formulates the budget and presents it to the legislature at least three months before the beginning of the fiscal year for approval.[33] Second, the legislature's role in negotiating for and changing allocations is highly circumscribed: Article 70 specifies that the legislature may not increase allocations or create new expenditures in the budgetary bill presented by the executive. Third, although the legislature may reduce budget allocations, the executive may veto the legislature or counter the legislature's decision through supplementary budgets that increase appropriations.[34] As a result, more than other legislation, the budget reveals the extent to which the executive may choose to displace or accommodate legislative priorities.

In summary, the examination here highlights that the major parties in Taiwan institutionalize support for party leaders and winning strategies through patronage and resource allocations. Transparency requirements and the concomitant dwindling

[29] See Shelly Rigger, *From Opposition to Power: Taiwan's Democratic Progressive Party* (Boulder, CO: Lynne Rienner Publishers, 2001, p. 68).

[30] See O. Fiona Yap, 'Agenda Control'.

[31] See Shelly Rigger, *From Opposition*, pp. 59–74. It is also noteworthy that in an effort to contain the divisiveness, neither the DPP policy manifesto nor the party platform is considered representative of the DPP but, rather, 'evolving' documents. See Shelly Rigger, *From Opposition*, p. 120; Dyadd Fell, 'Measuring and Explaining Party Change in Taiwan', *Journal of East Asian Studies*, 5 (2) (2005): 105–33.

[32] See *Taiwan Communique* (Washington, DC: Formosan Association for Public Affairs, 1981–2006).

[33] See *Constitution of the Republic of China* (Taipei, Taiwan, 2003), http://www.president.gov.tw/index_e.htm <accessed January 2007>

[34] Article 57.2 stipulates that the Executive Yuan may return a bill to the legislature for 'reconsideration'. Also, the executive retains the ability to propose additional spending for cases of national defense emergencies or war, national economic event, calamities, or an irregular political event. See *Constitution of the Republic of China*.

of resources following democratization have seen party members publicly falling out with party leadership or departing from the major parties. In this context, government spending takes on added significance as a resource for party development. In the next section, we discuss the hypotheses and operationalization of the variables for analyzing party development and divided government in budgetary decisions.

Hypotheses and variables

To recap, our argument that party volatility represents legislators' strategic adaptive response to the executive agenda under institutional separation of powers is supported if four findings hold. First, government spending reveals an executive agenda in defense spending for both pre- and post-democratization periods during election years. Second, spending allocations do not show a legislative agenda, characterized by increases in social and welfare spending for election years. Third, the results show that the legislature, specifically the executive party's control of the legislature, improves with increases in social and welfare spending. Fourth, they also reveal that the number of opposition parties in the legislature is negatively related to social welfare spending. In conjunction, these findings demonstrate the pursuit of party development as an executive party at the legislators' expense, so that ambitious candidates and elected legislators react by increasing party volatility.

The following hypotheses are empirically evaluated:

Hypothesis 1: Presidential election years are statistically significant in explaining increases in defense allocations, notwithstanding the strength of the executive party's control of the legislature and controlling for economic performance.

Hypothesis 2: Legislature election years do not see statistically significant increases in social and welfare spending, notwithstanding the strength of the executive party's control of the legislature and controlling for economic performance.

Hypothesis 3: The executive party's control of the legislature is positively related to social and welfare spending, controlling for economic conditions in the nation.

Hypothesis 4: The number of opposition parties in the legislature is negatively related to social and welfare spending, controlling for economic conditions in the nation.

We use time-series longitudinal analyses to test these hypotheses. The following describes the variables in the models. Political and economic data are obtained from the election commissions, statistical department, and also regional and international sources such as Beck *et al.*'s *Database on Political Institutions*, *Key Indicators of the Developing Asian and Pacific Countries*, and publications from the World Bank.[35]

[35] See Thornsten Beck *et al.*'s *Database on Political Institutions*, the Asian Development Bank's *Key Indicators of the Developing Asian and Pacific Countries* (1998 – 2006), and publications from the World

Dependent variables

There are four dependent variables of interest: government allocations for defense and social and welfare spending, the executive party's control of the legislature, and the number of opposition parties in the legislature.

Defense spending refers to spending on defense and the military. Social and welfare spending comprises spending in social welfare, economic development, education, and health. This leaves out general public or administration expenses, and interest and debt repayments that make up the rest of total government spending. We follow the conventions of the literature to adopt percentage growth in defense and civilian spending for analyses.

The executive party's control of the legislature, used in hypothesis 3, is obtained from Beck *et al.*'s *Database on Political Institutions*, which measures the fraction of seats held by the government from 1975 through 2004. To capture the number of opposition parties in the legislature, we use the measure of opposition fractionalization in the legislature from the same dataset. It quantifies the probability that two members picked at random are from different parties and is available from 1987 through 2004.[36]

Independent variables of interest

We are interested in the effects of election year spending by the executive and legislature and the effects of social welfare spending on the size of the ruling party and number of opposition parties in the legislature.

To test for election year agendas, we adopt two dichotomous variables, one each for the legislative and executive elections. They take on the value of 1 when a legislative (or executive) election occurs that year and 0 for all other situations. The use of two election variables departs from extant investigations that generally use only one election variable;[37] we make this departure to ensure that changes in spending allocation patterns are attributed to the correct institution. Studies show that trends of four to six quarters for electoral spending, that is, spending targeted to affect electoral outcomes may occur

Bank. The economic data for Taiwan are obtained or calculated from the *Taiwan Statistical Data Book* (Taiwan: Council for Economic Planning and Development, 1972–2006) and *Yearbook of the Financial Statistics* (Taiwan: Ministry of Finance, 1976–2006). Data on elections are gathered from figures released by the Central Election Commission, which may be found in several sources including *Annual Review of Government Administration* (Taiwan: Research, Development, and Evaluation Commission, 1976–1990) and *Taiwan Communique* (Washington, DC: Formosan Association for Public Affairs, 1981–2006).

[36] The dataset codes Taiwan between 1975 and 1983 as having no parliament (NA in the dataset). The dataset also codes independents as 'individual parties with one seat each'; as a result, it codes opposition fractionalization between 1983 and 1986 where nine independents won seats in the legislature as 100%. We disagree with the coding for 1983–86 in two ways: first, independents run their campaigns differently from organized parties. Second, several of the independents were loosely allied with the 'dangwai' movement and are not unrelated as such. Thus, our analysis begins from 1987 when opposition parties were permitted and the coding is consistent with general interpretations of party organization in Taiwan.

[37] See Hyeok-yong Kwon, 'Economic Reform', and James Lebovic, 'Spending Priorities'.

in four to six quarters prior to balloting.[38] Because presidential elections occur in the first quarter of the year, we adopt a lagged-election variable for the presidential elections in addition to the presidential-year variable to ensure that we accurately capture the executive agenda in spending allocations.

We are also interested in the effects of social welfare spending on the size of the ruling party and number of opposition parties in the legislature. To capture effects, we use percentage growth in social welfare spending (see section above) and its lag; this ensures that trend effects from four to six quarters are considered.

Independent control variables

To ensure that the results are robust, we add controls to the respective hypotheses. In particular, we consider that spending allocations may be influenced by total government expenditures, economic conditions, and democratization. Also, changes in the size of the ruling party and the number of opposition parties may be affected by democratization and the state of the domestic economy. Below, we describe the controls used.

Democratization is derived from the Freedom House's Political Freedom Index.[39] Specifically, the scales measuring civil and political freedom as reported by Freedom House are added and inverted so that the scale ranges from 2 (least democratic) to 14 (most democratic).[40] The use of a scale rather than a dichotomy considers that democratization generally occurs incrementally rather than dramatically.[41] We note, nonetheless, that the results are not substantively or statistically different using a continuous [0, 1] measure or a dichotomous variable of democracy.[42]

We keep with conventions in the literature and use total government spending, captured as percentage growth in total government spending, as a control. We also follow the literature and consider three economic variables to control for the domestic economy: inflation, real growth in per capita gross domestic product (GDP), and unemployment. Inflation is used because of its prominence in government economic objectives in the Asian countries as well as industrializing democracies with hyperinflation.[43] In keeping with the conventions in the literature, real growth in per capita GDP is also added as a control. We use unemployment where theoretically useful, specifically in hypotheses three and four; that is, we adopt unemployment where it has been shown to be theoretically or empirically relevant for two reasons. First, because of the small dataset, collinearity between the economic variables encumbered interpretation. Thus, in the interest of parsimony and interpretative efficiency, we use a minimum

[38] See Hyeok-yong Kwon, 'Economic Reform'.

[39] See Freedom House, *Freedom in the World* (New York: Freedom House, 1972 – 2006).

[40] See James Lebovic, 'Spending Priorities', and Hyeok-yong Kwon, 'Economic Reform'.

[41] See Yi Feng, 'Political Institutions', and Kenneth Bollen and Robert Jackman, 'Democracy, Stability and Dichotomies', *American Sociological Review*, 54 (4) (1989): 612 – 21.

[42] Substantively and statistically, the effects from using this ordinal scale from 2 to 14 are the same as using a [0, 1] score, where 1 reflects the highest level of democracy and 0 the lowest or a dichotomous measure of democracy (0, 1), where Taiwan is considered democratic in 1992. The results are also substantively similar if Taiwan is considered democratic only since 1996.

[43] See, for instance, *Annual Review of Government Administration* (1986, 1990).

of economic controls. Second, unemployment suffered from unit root problems, which complicated its utility. Hence, we apply the variable only where relevant.

In summary, we have four dependent variables of interest, two (defense and social and welfare spending) for assessing an executive versus legislative agenda and two (executive party control of the legislature and number of opposition parties in the legislature) for analyzing the benefits of social and welfare spending to the legislature. The independent variables of interest comprise the ordinal measurement of democracy, two dichotomous variables to capture the lag and actual presidential election years, a dichotomous variable to measure legislative elections, and social welfare spending and its lag. The remaining independent controls are total government spending, democratization, and inflation, growth, and unemployment to capture effects of economic performance on government spending. The next section discusses the results.

Results

We analyze annual data from Taiwan between 1975 and 2004. Given the time-series nature of the data, we evaluate the data and models for trending, autocorrelation, and structural breaks, which, if present, lead to spurious or biased findings.[44] In general, the tests report no statistically significant breaks in patterns of government spending allocations in Taiwan. Serial correlation also does not pose a problem for the results. However, augmented Dickey–Fuller tests show that three variables suffer from unit root problems: the ordinal measure of democracy, the executive party's control of the legislature, and unemployment. All three variables are transformed through differencing to convert their series into stationary ones. With the transformation, the variables capture the change in democratization, change in the executive party's control of the legislature, and change in unemployment. The original and transformed variables are used in the following equations to evaluate hypotheses 1 to 4 respectively:

$$\text{Growth in defense allocation}_t = \alpha_1 + \beta_1 \text{democratization}_t \text{ (differenced)} + \beta_2 \text{presidential election}_t + \beta_3 \text{presidential election}_{t-1} + \beta_4 \text{legislative election}_t + \beta_5 \text{change in executive party strength in the legislature}_t + \beta_6 \text{inflation}_t + \beta_7 \text{real per capita GDP growth}_t + \beta_8 \text{percentage growth in total government spending}_t + \varepsilon_{1t} \quad (1)$$

$$\text{Growth in social and welfare spending}_t = \alpha_1 + \beta_1 \text{democratization}_t \text{ (differenced)} + \beta_2 \text{presidential election}_t + \beta_3 \text{presidential election}_{t-1} + \beta_4 \text{legislative election}_t + \beta_5 \text{change in executive party strength in the legislature}_t + \beta_6 \text{inflation}_t + \beta_7 \text{real per capita GDP growth}_t + \beta_8 \text{percentage growth in total government spending}_t + \varepsilon_{1t} \quad (2)$$

[44] See William Greene, *Econometric Analysis* (5th edition) (New Jersey: Prentice Hall, 2002); Peter Kennedy, *A Guide to Econometrics* (5th edition) (Cambridge, MA: MIT Press, 2003).

Executive party control of the legislature$_t$ (differenced) = $\alpha_1 + \beta_1$ democratization$_t$ (differenced) + β_2 legislative election$_{t-1}$ + β_3 growth in social and welfare spending$_{t-1}$ + β_4 percentage growth in social welfare spending$_t$ + β_5 percentage growth in total government spending$_t$ + β_6 percentage growth in total government spending$_{t-1}$ + β_7 inflation$_t$ + β_8 real per capita GDP growth$_t$ + β_9 change in unemployment$_t$ + ε_{1t} (3)

Number of opposition parties (opposition party fragmentation) in the legislature$_t$ = $\alpha_1 + \beta_1$ democratization$_t$ (differenced) + β_2 legislative election$_{t-1}$ + β_3 percentage growth in social and welfare spending$_{t-1}$ + β_4 percentage growth in social and welfare spending$_t$ + $\beta_5$inflation$_t$ + β_6 per capita GDP growth$_t$ + β_7 change in unemployment$_t$ + ε_{1t} (4)

The findings support hypotheses 1 and 2 if the presidential election variables are statistically significant in explaining growth in defense allocation while the legislature election variables are not statistically significant in explaining growth in social and welfare allocations. The results support hypotheses 3 and 4 if the executive party in the legislature is positively related to social welfare spending while opposition party fragmentation is negatively related to social welfare allocations.

Table 1 reports the Huber–White robust regression estimation results for defense in column 1 and social and welfare spending in column 2. We checked for and found no problems from serial correlation. Huber–White estimation further ensures that the findings are robust to heteroskedasticity and residual autocorrelation problems. Generally, the results work as expected. Specifically, presidential elections are significant in explaining defense allocations; indeed, the presidential year election variable shows that the election leads to an 8.5% increase in defense allocations. Legislature year elections see no statistically significant increases in social and welfare spending. Of the control variables, growth in total government spending is statistically significant and positive in explaining both defense and social and welfare spending.

Table 2 reports the results of the effects of social and welfare spending on the change in executive party control and number of opposition parties in the legislature. Column 3 reports the results for change in executive party control in the legislature, while column 4 displays those for opposition party fragmentation. We lagged the legislative election variable because legislative elections are generally held at the end of the year in December, so that changes in the size of the ruling party or the number of opposition parties in the legislature follow from legislative elections in the previous year. Given the shorter time-series for equation (4) (1987–2004, based on the dataset), total government spending and its lag are dropped as controls in the analysis. We note that the results do not change substantively with their omission, that is the variables

Table 1. *Huber–White robust regressions of percentage change in defense and social-and welfare spending in Taiwan*

Dependent variable	Defense spending (standard errors)	Social and welfare spending (standard errors)
Democracy	−1.00	1.07
(ordinal measure, differenced)	(1.01)	(0.63)
Presidential elections	8.51*	−2.58
	(4.36)	(3.40)
Presidential elections (lag)	−2.39	0.99
	(3.78)	(2.33)
Legislative elections	−5.38	−0.08
	(4.31)	(2.48)
Percentage growth in total	0.71***	1.20***
government spending	(0.08)	(0.12)
Real growth in per capita GDP	0.27	0.21
	(0.53)	(0.36)
Inflation	0.57	−0.10
	(0.54)	(0.35)
Constant	1.46	−0.32
	(3.61)	(2.42)
N	28	28
F-statistic (probability)	19.66***	27.80***
	(0.001)	(0.001)

Notes: $p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

were not statistically significant in explaining the number of opposition parties in the legislature. Serial correlation did not pose a problem for the results, and our use of the Huber—White regression to assure robustness gives confidence that the results are robust.[45] They support our expectations; in particular, the lagged growth in social welfare spending is statistically significant and positive in explaining growth in the executive party's control of the legislature, while both social welfare spending and its lag are statistically significant and negative in explaining the number of opposition parties in the legislature.

Of the control variables in column 3, lagged total government spending is statistically significant and negative in explaining executive party control in the legislature; this suggests that the ruling party is held accountable for fiscal discipline in Taiwan. The economic variables of growth and inflation are also statistically significant and positive in explaining executive party control. They support the argument that the

[45] Specifically, the Durbin–Watson statistic for autocorrelation lies in the indeterminate range both before and after autocorrelation corrections. To retain the maximum degrees of freedom and because the results were not substantively different, we used the Huber–White regression to ensure results that are robust to variance heterogeneity and residual correlation.

Table 2. *Huber–White robust regression of percentage change in executive party control of and number of opposition parties in the legislature*

Dependent Variable	Executive party control of legislature (standard errors)	Number of opposition parties in legislature (standard errors)[a]
Democracy	1.60	1.03
(ordinal measure, differenced)	(1.34)	(0.71)
Legislative elections (lag)	−2.92	11.75**
	(4.33)	(5.07)
Percentage growth in social welfare	0.56**	−0.27***
allocations	(0.22)	(0.08)
Percentage growth in social welfare	0.08	−0.12
allocations (lag)	(0.21)	(0.08)
Percentage growth in total	−0.94***	
government spending	(0.29)	
Percentage growth in total	−0.15	
government spending (lag)	(0.32)	
Real growth in per capita GDP	0.93*	−6.69***
	(0.46)	(1.11)
Inflation	0.69*	6.52***
	(0.33)	(1.51)
Change in unemployment	1.54	−30.20***
	(2.21)	(4.82)
Constant	−4.48**	59.88***
	(2.04)	(6.03)
N	29	21
F-statistic	9.88***	8.20***
(probability)	(0.001)	(0.001)

Notes: (a) As discussed in the text, the shorter time-series for the opposition party fractionalization measure (from 1987–2004) led us to drop the variables of total government spending and its lag to preserve degrees of freedom. The omission of the variables does not change the results substantively.
*p < 0.1, **p < 0.05, ***p < 0.01.

ruling party is held responsible for economic performance and is generally rewarded for a strong economy. Column 4 reports several variables to be statistically significant, including all the economic variables and legislative elections in the prior year. The results for real growth in per capita GDP and inflation are as theoretically expected; specifically, the results show that the number of opposition parties increase as a result of negative real growth in per capita GDP and high inflation.[46] The statistical significance

[46] The results for change in unemployment contradict theoretical expectations; it shows that increases in unemployment reduce the number of opposition parties in the legislature. We attribute this aberration to peculiarities in the unemployment data from Taiwan. In particular, unemployment rates reported from Taiwan are exceptionally low, ranging between 1.2% and 2.4% between 1975 and 1980

of legislative elections in the prior year is also theoretically consistent: it shows that the number of opposition parties in the legislature increases with legislative elections in the previous years.

To summarize, the results from the longitudinal analyses show that presidential election years see significant increases in defense spending, while legislature election years fail to witness increases in social and welfare spending. The results also show that social and welfare spending is a strong predictor of legislative success for the ruling party and is negatively related to the number of opposition parties in the legislature. In conjunction, these results report that government spending supports an executive party agenda that is electorally costly to ruling party legislators and expands the number of opposition parties in the legislature.

Conclusion

The existing literature suggests that emergent democracies that face divided government and party volatility are likely to face democratic and political instability. Yet, cases of new democracies such as Taiwan and Brazil with both divided government and volatile parties have remained steadfast in their democratic and political paths. We explain that one motivation – ambition – drives divided government and party volatility in emergent democracies without jeopardizing democratic or even political performance. We test the argument with data from Taiwan.

The results corroborate our expectations that party volatility and divided government in emergent democracies occur as a result of ambitious candidates and politicians asserting distinct agenda for legislative and executive offices. In particular, the results reveal an executive agenda, typified by defense spending, in election years in both pre- and post-democratization periods. They also show an absence of a legislative agenda, characterized by increases in social and welfare spending, in election years. And, the results show that the executive party in the legislature benefits from increases in social welfare spending allocations, while the number of opposition parties increases with reductions in social welfare spending.

While the results here do not show statistically that ambition forestalls political and democratic weaknesses, two anecdotes suggest so. First, the informal pan-green and pan-blue coalitions in Taiwan, comprising the coalescence of parties that split or fractured from the major parties, underscore the effort by candidates and politicians to ensure governability and effectiveness. Second, the recent success in restructuring the electoral rules from single non-transferable votes for multiple member districts to single-member districts point to the efforts to pursue political and democratic performance. These anecdotal observations support the other studies in this issue regarding ambitious politicians and political development and substantiate our argument.

(notwithstanding the OPEC oil crisis that crippled the world economy) with an average unemployment rate between 1975 and 1996 of 1.9%.

What other implications may be drawn from these findings? At a minimum, the findings reveal that the political divide in new democracies is more appropriately defined as one between executive and legislature, rather than an ideological divide between political parties of the left versus the right as experienced in the industrialized democracies. These results provide an overlooked caveat – executive–legislature tensions – to government spending studies. The executive–legislature divide also goes towards clarifying why catch-all parties in new democracies such as Taiwan may, nevertheless, experience party splintering and divided governments. We look forward to future work on how party fragmentation and divided government perpetuates democratic and political performance.

Appendix: Summary statistics of dependent and independent variables

Taiwan	Mean	Standard deviation	Minimum	Maximum	Data availability (or coding)
Democratization (ordinal)			3	11	1972–2004 Freedom House Index
Democratization (ordinal, differenced)			−4	4	
Real growth in per capita GDP	6.10	3.39	−2.75	11.49	1963–2004
Inflation	4.93	7.91	−0.30	47.5	1963–2004
Presidential elections			0	1	1972, 1978, 1984, 1990, 1996, 2000, 2004 = 1
Legislative elections			0	1	1972, 1975, 1980, 1983, 1986, 1989, 1992, 1995, 1998, 2001, 2004 = 1
Percentage growth in total government spending	13.27	17.29	−27.67	66.19	1970–2004
Percentage growth in defense spending	11.43	16.42	−34.35	52.66	1970–2004
Percentage growth in social and welfare spending	15.28	21.33	−25.69	90.72	1970–2004
Percentage change in executive party strength in the legislature	−2.43	6.96	−29.87	0	1975–2004
Percentage of opposition party fractionalization (number of opposition parties in legislature)	−38.48	8.69	24.13	48.56	1987–2004