GOVERNANCE, RULE OF LAW, AND PARTY SYSTEMS

Kenneth Janda

Northwestern University

Ask a dozen scholars in different fields what governance means and you will probably get twelve different answers. The term has been applied to business firms, labor unions, social clubs, government corporations, and governments at all levels—especially to international organizations. So one might think that all the various uses of governance at least pertain to how well human organization are run—how well they function. But no, some writers look beyond the *process* of operating social organizations to their *outcomes*—what they accomplish. Yet another group dismisses both process and outcomes and defines governance essentially as the institutions that support the authoritative exercise of power. Then there are writers who use governance as a fancy term for government itself [Weiss, 2000; Taylor, 2002, Pp. 36-37].

What then is the *correct* meaning of governance? There is no single meaning that is right and others wrong. Scholarly terms, such as "governance," are merely labels applied to concepts, which are nothing more (but nothing less) than "succinct ways of expressing general ideas" about topics under study [Blakeley and Bryson, 2002, P. 1]. Although writers strive to express concepts succinctly (at least most writers do), concepts often reflect complex thought, leading writers to replace concepts with short terms. Terms and concepts themselves are neither right nor wrong. However, both can be more or less useful to thinking and inquiry.

Just as concepts can be more or less useful in scholarly research, terms that label concepts can be more or less helpful in communicating among scholars. Communication may suffer if the same term tags different concepts. Free to apply labels they like to concepts they use, writers often mean quite different things when they write about governance. Readers concerned with the governance of nations may have to sort through writings on corporate governance that are irrelevant to their interest. Moreover, even readers studying country governance may be interested in quite different aspects of governance. So the issue in answering the question—"What is governance?"—is whether its definition advances understanding. In other words, is the concept linked to the term useful to inquiry? If so, how?

This paper links governance to national politics, specifically to how well governments function in different countries. The proposed definition fits the conception of governance independently proposed by a few other scholars [Besançon, 2003; Lim 2009; Remington, 2008]. It is a political definition, in that it refers only to governments. Moreover, it refers to governmental outcomes—not process or institutions—and separates countries that govern well from those that govern poorly. The conceptual definition of governance has full and short forms. In its full form, governance is *the extent to which a state delivers to its citizens the desired benefits of government at acceptable costs*. In short, it is *the extent to which a state delivers to its citizens the benefits of government*.

The full definition addresses two issues in assessing the quality of governance. It excludes as "benefits of government" things that citizens don't want (such as a massive dam, or a nuclear power plant) or things that citizens might want (such as a military for national defense, or a cross-national railroad) but only at reasonable costs. In either case "good governance" is not at work. The short definition simply assumes that citizens want the benefit and accept its cost. Our concept of governance is similar to Besaçon's:

> Governance is the delivery of political goods—beginning with security—to citizens of nation-states. Good governance results when nation-states provide a high order of certain political goods—when the nation-states

> perform effectively and well on behalf of their inhabitants [Besaçon, 2003, P. 1].

It differs from hers by including the phrase "extent to which," which makes it a quantitative concept, but still a complex one [Lim, 2009, P. 3]. It is quantitative in that governance in any nation can range from bad to good. It is complex in that the quality of government can be judged according to different views of the benefits of government. My definition is not necessarily better or even more useful than others in *The Encyclopedia of Governance,* but it is well suited to explaining why country governments vary in how well they perform. In short, it supports understanding variations in governance across countries.

Defining Governance

Let us review five different issues in defining governance: (1) What is the definition's *domain* of application—to what class of organizations does it refer? (2) To what aspect of organization does it apply—structure, processes, or outcomes? (3) Does it support quantitative measurement? (4) Does it have qualitative dimensions? (5) How does governance relate to democracy?

What is governance's domain of application?

In ordinary language, the English word "governance" has been linked to its root "govern"—meaning to direct and control the actions of people under a sovereign authority. Many writers (mostly political scientists) still conceptualize governance in terms of governmental politics [Taylor, 2002, Pp. 37-40]. Let us call this the *political* application and contrast it with a more recent *socioeconomic* usage.

In an influential article in the mid-1990s, Rhodes stated, "The term 'governance' is popular but imprecise" having "at least six uses" [1996, P. 652]. Rhodes himself favored a definition that extended beyond political sovereignty, saying, "Governance refers to 'self-organizing, interorganizational networks'" that "complement markets and hierarchies as governing structures for authoritatively allocating resources and exercising control and co-ordination." Later, he reformulated his definition, saying "*governance refers to self-organizing, interorganizational networks* characterized by interdependence, resource exchange, rules of the game and significant autonomy from the state [Rhodes, 1997, P. 15, italics in original]" His definition does not limit governance to interactions between states and citizens. Its domain actually favors non-governmental applications; hence we classify it as a socioeconomic usage.

As is his right, Rhodes adopted the term for decision making in all social organizations. Rhodes' intent is clear from the title of his article, "The New Governance: Governing without Government" [Rhodes, 1996]. To his credit, Rhodes clearly stipulated an alternative concept and applied it to a line of research that generated numerous different but related socioeconomic definitions applying to the domain of all social organization. Political sciences usually have more restricted interests in governance that favor a narrower definition targeted to governmental politics, which returns to the term's historical definition. As one scholar put it, "whilst governance occurs without government, government cannot happen without governance" [Taylor, 2002, P. 37].

Does governance refer to structure, process, or outputs/outcomes?

Scholars often study a given topic in different ways, so even those who apply the concept of governance to the political domain may focus on various aspects of the topic and thus define it differently. Some writers find it useful to view governance in terms of structure; others see it as a process, while still others look at the outputs or outcomes of the process.

Structure: Some definitions of governance focus on institutional *structure*. That typically occurs in writings that equate governance with government [Bevir, 2007, P. xxxvii]. However, many socioeconomic definitions also focus on "governing mechanisms"—especially when they are not state institutions [Stoker, 1998]. A clear example of a political definition built on a structural conception is reflected in the first sentence in the World Bank's definition: "Governance consists of the traditions and institutions by which authority in a country is exercised" [World Bank, 2010]. Later we will see how the World Bank expanded its definition, but its structural emphasis is clear.

Process: In contrast, consider definitions of governance that focus on *process* [Peters, 2002]. The European Union's concept of "European governance" refers to "the rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence" [European Commission, undated]. Or consider the definition proposed by the United Nations Economic and Social Commission for Asia and the Pacific, which said that governance means "the process of decision-making and the process by which decisions are implemented (or not implemented) [UNESCAP, undated]. Other definitions of government as process abound. In truth, the World Bank's definition, which focuses on structure, continues to include

> the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them [World Bank, 2010].

While it is not always easy to classify definitions of governance as focusing on structure or process, the effort to try helps uncover differences among the conceptualizations.

Outputs/Outcomes: Definitions of governance that focus on structure or process are quite different from those that focus on *outputs* or *outcomes* [Stoker, 1998, P. 17]. These similar terms—outputs and outcomes—relate to concepts that are similar themselves. According to a prominent international agency,

> outputs are defined as the goods or services produced by government agencies (e.g., teaching hours delivered, welfare benefits assessed and paid); outcomes are defined as the impacts on social, economic, or other indicators arising from the delivery of outputs (e.g., student learning, social equity) [OECD, undated].

Both outputs and outcomes refer to the results of processes, but outputs represent more immediate results while outcomes represent longer-range consequences. Peters ties the distinction between outputs and outcomes specifically to the measurement of governance:

> . . . we will want to ask the extent to which the processes mentioned previously produced the capacity to govern, or a set of intermediate outputs that could then be related to actual governance. . . . [Then] we will want to measure the outcomes of the governance process. What has happened in society because of the interventions of government and the social factors involved with the efforts to govern? [Peters, 2002, Pp. 556-557]

Peters appears to favor measuring governance in terms of outcomes, saying that the basic question for measuring governance "is whether governance has been successful, and indeed, whether governance . . . has actually occurred."

Other writers have also opted to define governance in terms of outcomes. Remington defines governance "as the provision of public goods and services including secure property rights as well as a minimum of social protection" [2008, P.6]. Conceptualizing governance in terms of outcomes is especially suited to explaining variations in country governance.

Does the concept of governance support quantitative measurement?

Scholars commonly write about “good governance” [Weiss, 2000; Taylor, 2007]. A recent book on “good governance” defines it as expressing “approval not only for a type of government (usually democracy) and its related values (for example respect for human rights) but also for certain kinds of additional components” [Smith, 2007, P. 4]. Presumably, “good” governance stands opposed to “bad” governance—while other shades of governance vary from good to bad. Unfortunately, many definitions of governance (especially those that focus on structure and process) do not lend themselves to quantitative measurement—that is, distinguishing “less” from “more.” For example, consider Rhodes’ previous definition of governance as “self-organizing, interorganizational networks” that “complement markets and hierarchies as governing structures for authoritatively allocating resources and exercising control and co-ordination.” It is hard to conceive of “self-organizing networks” as ranging from less to more. That does not seem sensible. Or consider the UNESCAF definition of governance as “the process of decision-making and the process by which decisions are implemented (or not implemented).” Can one view “process” as ranging from less to more? It is not clear what “more” process might be—or whether *more* process is “better” than *less* process.

There is a straightforward way to compare countries on governance, but it would not satisfy many researchers. If we adopt a standard political definition of government—directing and controlling the actions of people under a sovereign authority—then governance might be measured by the extent to which citizens are directed and controlled. A totalitarian nation would rate high on governance and an anarchic society low. But few would be satisfied with this view of governance—which might result in scoring a dictatorship as high on governance. It is not adequate to consider simply the amount or *quantity* of governance. For comparative political research, we must consider quantitative variations in different *outcomes* of governance.

We need a quantitative concept of governance that supports distinguishing "bad" from "good" governance outcomes along some implicit measurement scale. One means of providing for measurement in a concept is to incorporate the phrase "extent to which" in its definition. In defining governance as the extent to which certain government outcomes occur, we provide for measuring governance along a scale of bad to good. By requiring the outcomes to be desired by citizens, we call them benefits of government. These considerations underlie our quantitative definition of country governance as *the extent to which a state delivers desired benefits of government to citizens at acceptable costs* [See also Besançon, 2003, P. 1].

Citizens everywhere often doubt their government's efficiency and effectiveness. Nevertheless, except for anarchists and true government-haters, most citizens everywhere admit that government delivers certain benefits. Sanitation and safe drinking water, roads and bridges, police protection and administration of justice, public education and financial regulation—these might be on everyone's list of government benefits. People will differ, however, in the value they place on creating parks, providing unemployment compensation, caring for the poor, ensuring health care, and so on. They will differ sharply over whether government should promote religion, allow abortion, censor sexually-oriented media, and so on.

Because citizens—especially those in different cultures—value government services very differently, they will not agree on any comprehensive list of government benefits in the form of specific policies or outcomes. They are more likely to agree on a relatively small set of universal material values, such as providing for sanitation and clean drinking water or delivering adequate electricity twenty-four hours a day, seven days a week. Such benefits, however, may depend more on a country's economic development than on its quality of government. The task is to arrive at some universally prized higher-level values that are normally associated more with politics than economics. These higher-level values, which are necessarily more abstract, we can call *meta-values*, with "meta" meaning beyond, transcending, more comprehensive. By conceiving of government benefits in terms of meta-values, one hopes to achieve more agreement in measuring governance across countries [Walker and de Búrca, 2007].

Does the concept of governance support qualitative dimensions?

A quantitative conceptualization also recognizes governance's qualitative dimensions. It measures *qualities* of governance along dimensions of various meta-values deemed to be benefits of government. For example, one universally praised benefit of government (except to anarchists) is the "rule of law." Another is "political stability." Both illustrate distinct qualities of governance. That some countries can slight the rule of law yet enforce political stability indicates that both outcomes are distinct. In principle, one should be able to rate individual countries separately for the extent to which they promote the rule of law and ensure political stability.

One can think of several benefits of government at the level of meta-values that represent qualities of governance. Although the World Bank (as quoted above) formally defined governance in terms of structure and process, it actually created indicators of governance for 212 countries in terms of six specific outcomes: (1) government effectiveness, (2) the rule of law, (3) control of corruption, (4) regulatory quality, (5) political stability, and (6) voice and accountability. These Indicators are widely regarded as the best and most comprehensive cross-country data on governance [Radelet, 2003, P. 34].

Accordingly, they seem to provide reasonable operationalizations of the conceptual definition of governance.

How does governance relate to democracy?

Some may see a similarity between governance (especially as we have defined it) and democracy. If anything, there are even more definitions of democracy than of governance [Vanhanen, 2002, Pp. 48-49]. Nevertheless, one popular understanding is that democratic government conforms to public opinion. If country governance means “the extent to which a state delivers the desired benefits of government to citizens,” is not governance similar to democracy?

The element of responsiveness to public opinion does enters my definition of governance. Most scholars, however, conceive of democracy not in terms of policy outputs or social outcomes but in terms of process—in terms of government procedures rather than substantive results [Кеннет Джанда, и другие, 2006, Стр. 59-62]. Some writers seek to combine the element of democratic process with the element of beneficial governmental results into a concept of “democratic governance.” This is how Mainwaring and Scully address the issue:

> Democratic governance is conceptually distinct from the quality of democracy and the quality of governance. Democratic governance is mostly a top-down phenomenon that refers to how well democratic government and the state in a democratic regime are functioning. By contrast, the quality of democracy refers to the “democraticness” of the political regime. Most studies of the quality of democracy focus exclusively on democracy’s procedural aspects, whereas good democratic governance also involves policy results. It means governing not only democratically, but also effectively. Our focus also differs from analyses of effective governance in general because we specifically analyze democratic governance—that is, good governance under democracy [2008, pp. 113-114].

Scholars have produced scores of studies on democratic governance. Many do not observe the clear distinction between democracy and governance drawn above by Mainwaring and Scully. Others cloud the distinction by using related terms such as "responsible" governance, or "collaborative" governance, or even "good" governance involving "equality of participation in decision making."

Like Mainwaring and Scully, I distinguish between governance as outcomes and democracy as a process involving widespread citizen participation and competition among elites. In fact, some scholars see "tension between governance and democracy," as nonmajoritarian (undemocratic) institutions sometimes produce better governmental outcomes (often economic outcomes) than democratic institutions [Bevir, 2007, P. 379]. However, it is an empirical matter to determine the correlation that exists between the degree of democracy and the qualities of governance. Therefore, I avoid the terminology of democratic governance.

Measuring Country Governance Using Rule of Law

The World Bank scored 212 countries on its six meta-value indicators of governance. They included all 192 members of the United Nations, some non-member nations (such as Taiwan), and some entities (such as Guam and Hong Kong) not normally regarded as independent nations. For this study, I chose the World Bank data for 2007 and focus on one indicator, Rule of Law, scored for 211 countries—every one excepting the small island of Niue

Rule of Law (RL) had the highest average intercorrelation (r=.87) with the other five World Bank indicators. Although the "rule of law" is a topic "of great conceptual and practical complexity" [Carothers, 2006, P. 26], it is central to many conceptions of governance. Note that rule of law differs from the concept of democracy. Writing about the decision at the 15th Congress of the Chinese Communist Party in 1997 "to give priority to the rule of law rather than democracy," Qian and Wu observe: "The rule of law is not the same as democracy. For example, the two most free market economies, Hong Kong and Singapore, have the rule of law but are not democracies by Western standards" [Qian and Wu, 2000, P. 11]. Rule of law, they say, is necessary for a modern market economy but does not "directly and immediately threaten the governing power of the Party."

The World Bank standardized its RL scores to have a mean of 0 and a standard deviation of 1. Commonly called z-scores, they tell—in standard deviation units—where each country stands in relationship to all other countries on the Rule of Law, which measures

> perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence [Kaaufmann, Kraay, and Mastruzzi, 2008, Pp. 7-8].

Figure 1: Histogram of Rule of Law Scores for 211 Countries in 2007

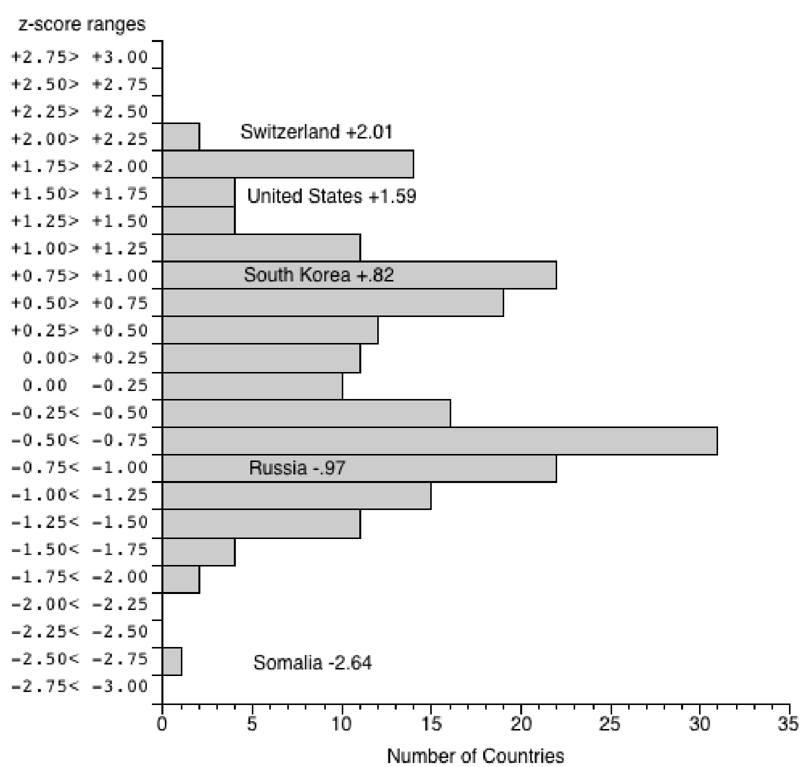


Figure 1 graphs the distribution of World Bank RL scores for 211 countries in 2007. The scores and position for five selected countries illustrate the scoring results. Switzerland (2.01) scored the highest for Rule of Law, while Somalia (-2.64) scored lowest. The U.S. score (1.59) stood at approximately the 90th percentile, while South Korea (.82) and Russia (-.97) stood respectively at approximately the 75th and 20th percentiles.

The distribution of the world's countries in Figure 1 is roughly bimodal, bunched into two groups above and below the mean of 0. Countries cluster around two poles: those that tend to practice the Rule of Law and those that do not. This pattern suggests a fundamental division among countries concerning the Rule of Law. Can any of this variation be explained by differences in their party systems?

Assessing the Effects of Party Systems

Many people believe that the quality of governance in a country is affected by the qualities of its political party system. A United Nations publication says, "In many countries today, political parties are an essential part of the apparatus of governance:

> Parties in a democratic system serve several purposes. They aggregate interests by persuading voters to support various issues, and they lend coherence to voter choices. They may mobilize the masses outside of elections. In conflict situations, they can be crucial in determining whether there is a move forward into recovery or a relapse back into hostilities. Once elected, parties play a major role in shaping public policy, securing resources and orienting the government around certain platforms. Parties also foster future political leaders and monitor elected representatives. An institutionalized party system can hold elected politicians accountable [Democratic Governance Group, 2006, P. 9].

Underscoring the importance of political parties in democratic governance, international organizations and non-governmental organizations have poured millions of dollars into party development under the rubric of democratic assistance [Carothers, 1999]. Typically, aid agencies combat party system fragmentation and promote party system competition and stability. If the qualities of countries' party systems are so critical to country governance, party system effects should be strong enough to emerge through cross-national analysis of all types of countries—those with multiple political parties, single parties, and no parties. Countries whose party systems rate higher in the traits that aid agencies favor should rate higher on accepted measures of governance. If the theory that relates party system traits to country governance is truly robust, party system effects should be visible in comprehensive analyses of the world's countries.

This study investigates whether differences in country party systems explain variation in country governance, using the World Bank scores for Rule of Law in 2007. The details of collecting data on party politics in 212 countries are contained in an earlier paper [Janda and Kwak, 2009]. In brief, we collected data on the distribution of party seats at two points in time: after a *stimulus* election prior to 2007 and after a *referent* election adjacent to the stimulus election. The stimulus election captured the party system that was positioned to affect governance in 2007, while the referent election reflected the party system's stability over time. We succeeded in collecting data on the percentage of seats that parties held in parliament (or in legislatures) for 189 countries. Not all seats were popularly elected in all the countries.

In another paper, we examined the dimensions of party systems, reviewed alternative measures of party system fragmentation, competition, and volatility, explained at length how we used our data to measure those three dimensions, and reported on some results [Janda, Kwak, and Suarez-Cao, 2010]. In this paper, we selected the three measures for fragmentation, competition, and volatility that produced the most interpretable results and summarize their effects on country governance, as measured by the Rule of Law (RL).

Not even the most enthusiastic advocate of party politics would argue that party system characteristics are prime causal factors in the quality of country governance. Governments cannot govern well if they lack adequate resources. Accordingly, country wealth is commonly cited as a major factor in governance. Virtually all researchers find strong positive relationships between country wealth (commonly using GDP per capita) and country governance (regardless of the measures used) [Xin and Rudel, 2004; and Kurtz and Schrank, 2007]. In addition, several scholars have hypothesized that the larger the country, the lower the quality of governance. Kurtz and Schrank supplied the reasoning: “larger societies are more complex and in principle more difficult to administer” [2007, P. 544]. Other factors besides country wealth and size have been proposed (such as colonial status and settlement histories), but such data are difficult to collect for all 212 countries rated by the World Bank. We managed to collect data on wealth and country size for every country in our study. Because both variables were highly skewed in the direction of great wealth and large size, we computed their logarithms to normalize the distributions, and we used logarithms throughout our analyses.

We measure country wealth using the logarithm of gross domestic product per capita, which we hereafter call Wealth. We measure country size using area in square kilometers rather than number of people simply because area usually provided stronger relationships than population. Our variable, SmallArea, is the logarithm of the country area in square kilometers times -1. Multiplying by -1 rescores the variable as “smallness” rather than “bigness” to create positive (rather than negative) hypotheses and to generate positive signs in regression equations. Both variables, Wealth and SmallArea, were also converted into z-scores with means of 0 and standard deviations of 1, matching the scoring system for Rule of Law.

We entered Wealth and Small Area as independent variables in regression analysis to predict RL. Entered alone in the analysis, Wealth alone explains 61 percent of the variance in RL scores. Entered together, they generate an R-square of .66, explaining almost two-third of its variance. The coefficients in the corresponding equation (below) are beta coefficients and can be interpreted in standard deviation units. (Unless otherwise noted, all coefficients reported in following equations are significant beyond the .01 level using a one-tailed test.) Adding together the effects of both variables, we can say that for each .73 increase in the standard deviation of country wealth *plus* each .23 decrease in the standard deviation of country size, a country's RL score is expected to increase almost 1 standard deviation (.96). Equation 1 reports the regression equation for all 211 countries scored for Rule of Law.

$$RL = .73 * Wealth + .23 * SmallArea \qquad R^2_{adj} = .66 \qquad (1)$$

Given that country wealth and size together explain almost two-third of the variation in country ratings on Rule of Law, one should not expect variations in party systems to explain much more. Nevertheless, international aid programs have spent untold millions of dollars to strengthen, stabilize, and democratize party systems. Presumably, they think that their spending has measurable effects on governmental performance. We are in a position to test three theoretical propositions concerning the effects of party systems on Rule of Law as a key indicator of governance:

1. The more *fragmented* the party system, the less the Rule of Law.
2. The more *competitive* the party system, the greater the Rule of Law.
3. The more *volatile* the party system, the less the Rule of Law.

Party System Fragmentation

The term “fragmentation” has been applied to a family of measures based on parties’ strength (in terms of votes or seats won) across the number of parties. The underlying concept to which these measures refer is not clear. For some, it represents party system chaos (too many parties); for others, it indicates party system competition [Kesselman, 1966; Rae, 1971; and Kuenzi and Lambright, 2005]. Regardless of what fragmentation means, some writers claim or imply various consequences of high party system fragmentation.

Enikolopov and Zhuravskaya [2007] think that fragmentation produces weak governing parties with each having little influence over governing policies. Lane and Ersson summarize the theory: “A high degree of fractionalization—too many parties—hinders a multi-party system from delivering durable and effective government, or so established party system theory suggests” [2007, P. 94]. Nevertheless, Lane and Ersson believe that some degree of fragmentation increases “the chances for voters to send signals to politicians/political parties and show they are monitoring their behaviour.” Other scholars reflect Lane’s and Ersson’s theoretical ambivalence. Anderson [1998] holds that high fragmentation, with different parties targeting different parts of the electorate, is positively related to satisfaction with democracy. Mainwaring [1999, p. 285], in contrast, believes that high fragmentation reduces a president’s capacity to introduce political reforms. Grzymala-Busse [2003] contends that high fragmentation of east central European party systems caused electoral uncertainty, constraining the extraction of state resources by one-party dominant governments. Again in contrast, Doherty [2001] holds that high fragmentation *prevents* the emergence of adequate political opposition. Toka and Henjak [2009] worry about the destabilizing effects of *both* very high and very low party fragmentation. Finally, Sanchez [2009] says that variations in fragmentation are unimportant when party systems vary in institutionalization. To confuse matters further, some researchers measure institutionalization by volatility—which stands unrelated to fragmentation measures [Hicken, 2006; and Robbins, 2008].

We tried six different measures of party system fragmentation. *None* of them made anywhere near a significant contribution to explaining variation in Rule of Law. Based on data collected on parliamentary systems in 189 countries, there appears to be no systematic relationship between party system fragmentation (at least as measured by these six indicators) and country governance. Proposition 1 is flatly rejected.

~~1. The more *fragmented* the party system, the less the Rule of Law.~~

Party System Competitiveness

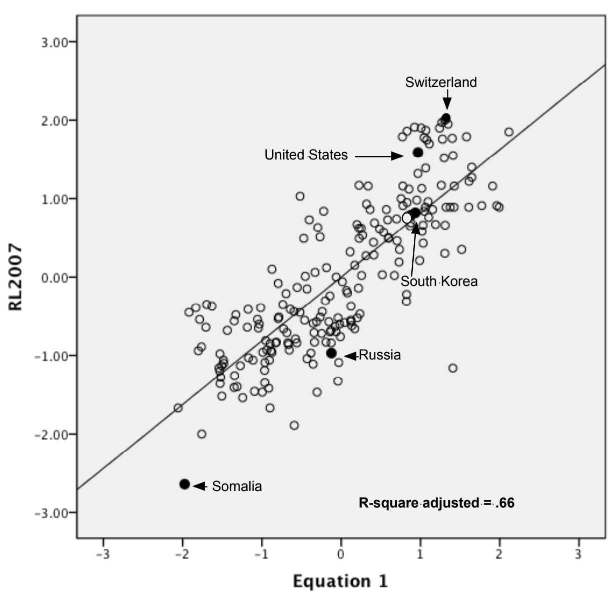
We regard a parliamentary party system as *competitive* to the extent that there is a sizable rival party to challenge and possibly surpass the larger party in controlling government. The sheer size of the parties competing for control is important. Rival governing parties must each be sufficiently large to have "office capacity," enabling them to adequately staff government ministries [Skjæveland, 2009]. We use the percentage of seats held by the second party after the stimulus election (Party #2) to operationalize party system competitiveness. Moreover, it is essentially uncorrelated with the various measures of fragmentation. The distribution of Party #2 over all 189 party systems has the additional advantage of being unimodal and relatively symmetrical. The percentage of seats held by the second party also conveys more information about adjacent parties in the system than the percentages held by the largest or third parties. We use Party #2 (stimulus election), which has not been used much (if at all) in the party literature, as our measure of party system competition.

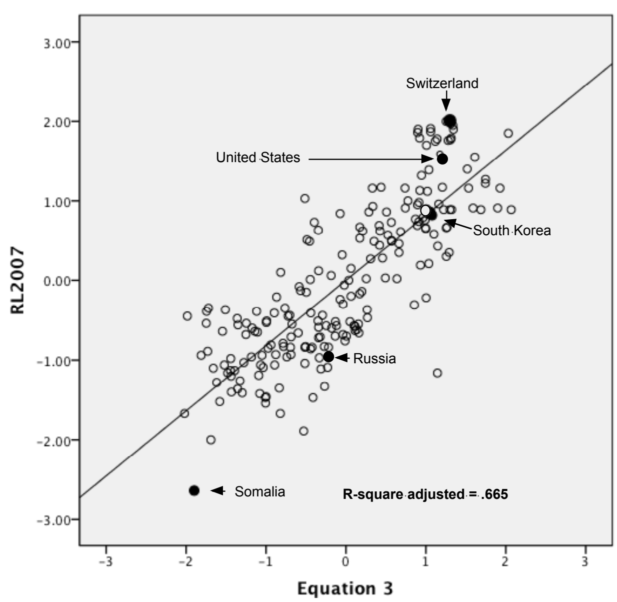
Although party system competition may not have been adequately measured in the literature, the concept itself is theoretically important. Weale says, "Party competition in open elections is the principal institutional device used in modern political systems to implement the ideals of democracy and to secure representative government" [2006, p. 271]. Indeed, we find that Party #2 correlates .53 with the Freedom House's classification of "Electoral Democracies" countries—those where "the last nationwide elections for the national legislature must have been free and fair [Freedom House, 2006]." (All of the fragmentation measures correlate below .25.) In contrast to our regression analysis using the various fragmentation variables, using Party #2 shows a statistically significant effect on Rule of Law, increasing the R-square to .67.

$$RL = .70*Wealth + .22*SmallArea + .10*Party\ \#2 \qquad R^2_{adj} = .67 \quad (2)$$

Although we had parliamentary seat data for only 189 countries, we included all 211 countries in Equation 2 by converting all our data to z-scores and substituting 0 for the 22 countries for which we lacked parliamentary seat data. While this inclusion preserved the original variance in RL scores, it introduced some error associated with using means to estimate missing data.

Figure 2: Regression Plots of Equations 1 and 2





Although Equation 3 barely increases the explained variance, one can argue that Equation 3 is more properly specified. Comparing the two regression plots in Figure 2, one sees that both the United States and Russia edge closer to the regression line because of the different effects of party system competition. The second party in the U.S. after the 2004 congressional election held 47 percent of the seats, while the second party in Russia held only 12 percent after the 2003 parliamentary election. More competition in the U.S. and less competition in Russia slightly improved the RL predictions for both countries.

Although its effect is not large, the percentage of seats held by the second largest party in parliament is significantly related to the quality of governance across the world's countries. That supports our second proposition:

2. √ The more *competitive* the party system, the greater the Rule of Law.

Party System Volatility

In ordinary discourse, the term "volatile" means inconstant, fleeting, capable of quick change. It has the same meaning in describing party systems but has been applied separately to party votes and seats [Lane and Ersson, 2007]. *Electoral* volatility, as popularized by Pedersen, assesses changes in percentages of *votes* cast for all parties in adjacent elections [Pedersen, 1979]. *Seat* volatility refers to changes in percentages of parliamentary *seats* for all parties in adjacent elections. Of course, measures of electoral and seat volatility tend to be highly correlated; Ersson and Lane [1998] find they correlate .77 for measures for 18 European countries.

Pedersen's original volatility formula calculated the percentage point differences in votes cast for all parties in two adjacent elections. Our formula differs in a minor way by calculating the differences in percentages of seats won by parties in two adjacent elections. More importantly, we calculate the percentage point differences only for the three largest parties at the stimulus election. Accordingly, our formula adjusts for the share of seats won by *k* parties in adjacent elections when not all parties are included in calculating changes in seat shares [See Birch, 2003]. It replaces 2 in the divisor in Pedersen's formula with the sum of the seats won in each election by the set of parties (*k*) included in the calculation. The modified formula no longer ranges from 0 to 100 but from 0 to 1 and can be interpreted as the proportion of change in seat percentages held by *k* parties in two adjacent elections.

$$\text{Volatility}_{\text{seats}} = \sum_{i=1}^{k} \left| p_{i(t)} - p_{i(t-1)} \right| / \left(\sum_{i=1}^{k} p_{i(t)} + \sum_{i=1}^{k} p_{i(t-1)} \right)$$

Where $p_{i(t)}$ = percentage of seats in stimulus year

$p_{i(t-1)}$ = percentage of seats in reference year

$k = 3$, number of parties for which we collected data

The standard theoretical position holds that favorable governmental consequences flow from party system stability (usually measured by Pedersen's volatility index). Birch [2003] cites four negative consequences of high party system volatility: less accountability to voters, slower party institutionalization, more political uncertainty, and higher stakes in elections. In keeping with the standard view, Robbins [2008] contends that party system volatility corresponds negatively with public goods spending levels, presumably an ingredient of governance.

However, as in the case of party system fragmentation, some scholars dissent from standard theory. Lane and Ersson, say, "In contrast this article argues that electoral volatility bolsters the position of the principal and makes the agents more inclined to work more for the interests of the principal relative to their own interests" [2007, P. 97]. Mozoaffar and Scarritt also hold that "High electoral volatility can be viewed as a system-clearing device that eliminates inefficient parties, leaving a small number of parties to compete for votes and form governments" [2005, P. 417]. Kuenzi and Lambright add that legislative volatility, particularly in new democracies "might help invigorate formerly stagnant systems" [2005, P. 426]. Finally, Toka and Henjak contend that "particularly low and particularly high levels of party system stabilization are both usually detrimental for instilling strong electoral accountability of governments" [2009, P. 6].

We tested standard theory about party system volatility for 189 through regression analysis, using Wealth, Small Area, and Volatility (rescored so that high values meant stability, not instability). When Volatility was entered alone as a third variable, the result was similar to the results for all the fragmentation measures. Volatility was not significant related to RL, but it came closer to significance than the fragmentation measures.

We then rethought the theory about parliamentary party stability. We concluded that party system stability would be only important to the quality of governance if elections were competitive. Above we mentioned that Freedom House classified a country as an Electoral Democracy if its last nationwide election for the national legislature was free and fair, among other criteria. For 2005, Freedom House classified 123 of 192 countries (64 percent) as electoral democracies. (Russia in 2005 was not classified as an electoral democracy.) We applied their criteria to the 20 countries Freedom House did not score and arrived at 136 Electoral Democracies. Six were small countries with nonpartisan elections, leaving 130 for analysis in Equation 6.

$$RL = .75*Wealth + .13*SmallArea + .13*Volatility \qquad R^2_{adj} = .70 \quad (3)$$

Party #2 was excluded because of its high correlation, r= .53, with Electoral Democracy. That is, party system competitiveness itself is a hallmark of electoral democracy.

Volatility's effect on RL in Equation 6 was significant beyond the .01 level and explanation of variance in RL scores increased to 70 percent. It appears that party system stability contributes to government performance only in countries where elections are substantively meaningful, e.g., in Electoral Democracies.

Summary and Conclusion

This article proposes a refined definition of governance that returns to the traditional dictionary definition of governance in terms of sovereign authority of states. That is its domain of application. Conceptually, it judges country governance according to its political outcomes, not institutional structures or processes. It is also a quantitative concept, capable of measurement along an implicit scale of bad to good. Because any government produces many different outcomes, it is also a multidimensional concept. The World Bank's six indicators of the qualities of governance illustrate how the multiple qualities of governance might be operationalized. Finally, governance as reflecting governmental outcomes and democracy as reflecting governmental processes or procedures are very different matters, and should be kept conceptually distinct.

Our study of the effects of party systems on country governance was conducted at the highest level of comprehensiveness (using virtually all nations in the world) and abstraction (using the concept of Rule of Law). We reasoned that if party systems had important effects on governmental performance, we should be able to detect significant impacts of party system differences—after controlling for the effects of country wealth and country size. In summary, we tested three propositions, with the results marked for failure and success:

1. ~~The more *fragmented* the party system, the less the Rule of Law.~~
2. √ The more *competitive* the party system, the greater the Rule of Law.
3. √ The more *volatile* the party system, the less the Rule of Law.

Party system volatility, however, is significantly related to Rule of Law only in countries that qualify as electoral democracies—those that have open and competitive elections.

Rule of Law is only one of the World Bank's six indicators. Two of its indicators, Voice and Accountability (VA) and Political Stability (PS), have average correlations, respectively, of only r = .76 and r= .71 with the other four indicators. We found that party system fragmentation, which was not significantly related to Rule of Law, did have significant impacts on VA and PS. We plan to study these effects further in subsequent research.

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