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COMMENTARY

Policies, Institutions, and the Influence of Regime Type on Economic Growth

PRADEEP K. CHHIBBER

It is rare that one comes across research in political science that provides a final word on an empirical debate. Adam Przeworski’s “Democracy and Economic Development,” which derives in large part from the research presented in Democracy and Development (Przeworski et al. 2000), is such research. After the publication of Democracy and Development, it would be difficult for anyone to assert that dictatorships have performed better economically than democracies in the second half of the twentieth century.

Using a selection-corrected model, Przeworski et al. (2000) show statistically that regime type does not have a bearing on either the rate of investment in an economy or the growth of total income. All regimes are either democracies or dictatorships. A regime with an elected executive is classified as a democracy whereas all others are dictatorships. Democracies have rates of investment and growth in total income which does not differ from those of dictatorships (regimes where the executive is not elected). Per capita income, however, grows faster in democracies because in dictatorships population growth rates are higher and, hence, similar levels of growth in income yield lower increases in per capita income. The unit of analysis in this research is the nation-state and this is consistent with other research on the influence of regime types on economic growth.1

This empirical finding raises a series of questions. Why does regime type have no influence on economic growth? Why is it that an executive (elected or not) can have no bearing on economic growth? Why does the population grow faster in dictatorships? “The Democratic Dynamics” and Przeworski et al. (2000) do not offer the reader (and, in fairness, do not even suggest that they would) a causal explanation for why regime type has no bearing on economic growth.2 The aim of the research is to provide a more accurate statistical test to determine the influence of regime type on economic growth. In the absence of an explanation for why regime type has no influence on economic growth one is left to imagine why this would be the case. For political scientists interested in these questions, the publication of Democracy and Development makes it imperative to ask why regime type has no influence on economic growth.
What, however, influences economic growth? Economic models attribute economic growth to policies, institutions, or geography/resource endowments (Easterly and Levine 2002). The empirical findings of “The Democratic Dynamics”—that regime type does not influence economic growth—then can be sustained theoretically if regime type has no bearing on either the policies adopted by a nation-state or the collective institutions that can be found in a nation-state. Is this a plausible claim?

Regime type is a political institution. Regime type can influence economic growth either indirectly, through determining the policies adopted and institutions created by a regime, or have a direct impact that is independent of policies, institutions, and geography/endowments. Most political scientists would agree that regime type does have a bearing on policy and the institutional framework of a nation-state. This response to “The Democratic Dynamics” therefore focuses on the viability of the claim that different regime types adopt policies and/or develop institutions whose differences would not have an impact on economic growth. As regime types are, by definition, different political institutions, it is hard to imagine that democracies and nondemocracies could be categorized as similar collective institutions. The focus of this response is on the influence of regime type on policy.

Regime type may not have a bearing on the rates of investment or growth in total income because regimes, whether democratic or nondemocratic, adopt essentially comparable kinds of policies. The similarity in growth rates across regime types may not, however, be generated only by the verisimilitude of policies adopted by democracies and dictatorships. The policies adopted by the democratic and nondemocratic regimes could indeed be different, yet these differences in policy may not generate varying growth rates in the two regime types. Identical growth rates, despite the adoption of different policies by the regimes, could be generated by factors other than a regime’s policies. These “other factors” then have a large influence on the rates of economic growth. In such a scenario, the policy differences associated with differences in regime type are too small to have a significant influence on economic growth. Even if the policies adopted by the different regimes (democracies and nondemocracies) are indeed very dissimilar, it is conceivable that these policies have no bearing on economic outcomes as economic actors ignore the policies. Democracies and nondemocracies then could grow at similar rates.

To recapitulate, different regime types can lead to generate similar levels of economic growth when:

1. Democracies and Dictatorships adopt similar policies
2. Democracies and Dictatorships adopt different policies but those differences have little impact on economic growth because
a) Factors other than policy and institutions have a larger influence on economic growth.

b) The policies themselves have little or no influence at all.

Do democracies and dictatorships adopt similar policies? A large number of political scientists would argue that democracies make policies under political circumstances that are vastly different from those of dictatorships. Most democratic governments have political parties, politicians who need to be re-elected, and constituents who make demands on these politicians; and sometimes there are effective interest groups and civic associations that can also influence government policies. Nondemocracies, on the other hand, do not face similar pressures to make policies. Research on policymaking in nondemocracies has suggested that policies in such regimes are made more autonomously from social pressures than in democracies. If different political actors influence policymaking in democracies and nondemocracies, then can the policies adopted by these two regime types be the same? It is indeed possible (though hard to imagine) that the political pressures faced by the regimes are different and yet the policies adopted are the same.

If the policies adopted in democracies and nondemocracies are distinct and yet the growth rates across the regime types do not differ, this similarity in economic growth, as we noted above, could be for two reasons. First, the policy differences may not have a bearing on economic growth, for the policies themselves have no discernible impact. This is a possibility if other factors have a larger influence on economic outcomes than the different policies adopted by democratic and nondemocratic regimes. This line of reasoning is fairly provocative for political scientists. It suggests that the theories offered by political scientists linking regimes to economic growth suffer from a massive omitted variable bias. Regime differences in policy have little impact on economic growth and hence the arguments by political scientists and economists that linked policies such as labor repression to faster economic growth in nondemocracies and current consumption to slower economic growth in democracies were not accurate to begin with.

Second, ineffectual regimes, too, can generate similar growth in democracies and nondemocracies despite policy variance across democracies and nondemocracies. Economic activity is not influenced by the policies adopted by a regime. This claim is difficult to sustain in a democracy. In democracies, as most political economy research has shown, policy is made under the influence of economic actors. If this is indeed the case then, the acceptance of the policy by some economic actors is assured and it would be difficult to argue that in a democracy a policy is made by the regime and ignored by all economic actors.

A regime could, however, adopt a policy but the regime could be too weak to implement the policy, for the writ of the state does not extend very far. There are
nation-states that adopt policies but those policies are virtually ignored on the ground. For instance, the Indian government has introduced many policies for increasing the purchasing power of the poor but often “local capture” prevents these policies from being implemented successfully (Bardhan and Mukherjee 2000). Similarly in Africa, Herbst (2000) notes that many African nation-states are not able to exercise control over their territory and Van de Walle (2001) sees the failure of the African states to pursue effective structural adjustment or more neoliberal economic policies largely because the state is captured by elites who ignore policy directives. But, all states are not similarly placed. There are states that are remarkably effective at implementing policies. Evans (1995), for instance, notes how the Korean government was able to implement policies in the high-tech sector far more easily than either Brazil or India. Both democratic and nondemocratic states can be effective. For instance, the possibility of “local capture” that can thwart national policy is far less in Canada, a large multilingual federal democratic state, than in India, also a large multilingual, federal democratic state. Also some nondemocracies, such as those of Franco in Spain, were better at growing the economy than some dictatorships in Africa (for reasons that have less to do with regime type and may have more do with factors such as those outlined by Herbst [2000]).

This discussion suggests that to attribute the similarity in growth rates across democracies and nondemocracies to the lack of effectiveness of regimes is a claim that cannot be sustained. Some regimes are more effective and others are less so. This, of course, raises an important question. If we know that some regimes are better at implementing policy than others, should we not control for the policy efficaciousness of different nation-states before including them all in the same regression. Treating all nation-states as similar in their ability to influence national policy (the net effect of having all nation-states in the same regression) precludes us from determining the impact of state capacity on economic growth. This would be especially important if either democracies or nondemocracies were more preponderantly influential than the other in implementing policy.

Treating all nation-states as single units of analysis in a regression model also overlooks the fact that in large countries—such as in India—there are large differences in economic growth within the nation. During the years 1980–1996 domestic product of the state of Bihar grew at 1 percent per annum whereas Gujarat and Tamil Nadu saw growth rates of 4.3 percent per annum in their domestic product (Sachs, Bajpai, and Ramiah 2002, 28). Regional differences are also found in China between the coastal and inner regions with the coastal regions having grown far more rapidly than the interior. Averaging growth rates across a nation-state smooths over these intrastate differences. These differences in growth rates also need to be explained if one is to develop a fuller explanation.
for economic growth. Any explanation (theory) that seeks to account for variances in economic growth across nation-states should also be able to explain the varying growth rates of provinces within a nation-state or else the explanation would always be a partial account of economic growth as the focus on the nation-state is then either a matter of convenience or ad hoc.

Where does that leave us? If the empirical findings in “The Democratic Dynamics” are accurate, then the stake for political scientists has been raised. Political scientists need to build better theoretical models to link regime types to development.

Notes

1. In this response, pace Sen (1999), development and economic growth are kept distinct. In his essay, Przeworski is concerned with economic growth not development. Development is often more than the rate of investment and economic growth.

2. Sen (1999) notes the absence of a causal theory that underlies the statistical findings.

3. Using total income as a dependent variable, Easterly and Levine (2002) argue that some government policies have little bearing on economic growth. They stress the role of geography/endowments and institutions.

4. The notion of collective institutions comes from Robinson (2002), who distinguishes the institutional explanations of economic growth as being comprised of two sets of institutions—specific institutions such as markets and collective institutions such as property rights. The latter, for Robinson (2002), are fundamentally political creations.

5. This would not matter if ineffectual states were randomly distributed between democracies and dictatorships. Whether that is the case or not needs to be determined empirically.

6. Could the findings be a result of case selection? Almost a third of the world is missing from the analysis in this essay as well as in Przeworski et al. (2000). Both China and India are dropped from the analysis. India is not included as it is argued that the economic model could not predict democracy in India (though for some this could bring pause to explanations that democratic outcomes are the result solely of economic utilities). Why China is not included in the analysis is not made clear in the text. This could have an impact on the claim that population growth rates are lower in democracies than in nondemocracies, but China, a nondemocracy, has managed to lower its population growth rate quite substantially.
COMMENTARY

Przeworski on Democracy and Growth: Almost Perfect Empirics, Not Quite Convincing Theory

RONALD L. ROGOWSKI

Adam Przeworski, in this excellent and intriguing essay, summarizes in a particularly lucid and accessible way the landmark results of his collaborative efforts (most notably Przeworski et al. 1996 and 2000); and, more importantly, extends those results further into the crucial and much-contested arena of how institutions affect economic growth. On the first count, we are reminded again of how Przeworski and his colleagues have utterly transformed the received view of the link between wealth and democracy. Wealth, we now know empirically, cannot guarantee the emergence of democracy; it can only guarantee democracy’s survival once it does, by whatever accident, emerge. And while wealth is by far the most important explainer of democracy’s survival, at the margin a few other variables—education; economic growth; labor’s share in value-added; competitive politics—seem also to matter. Culture, repeatedly adduced as a “cause” of democracy, turns out not to matter at all, once the more mundane demographic variables have been taken into account; neither does colonial legacy or “age” of democracy.

Perhaps even more important in this paper, Przeworski throws his formidable talents into an ongoing debate—heretofore dominated by economists like Barro, Sala-i-Martin, Londregan, Persson, and Tabellini—on how democracy (or, more generally, political institutions) affects investment and economic growth. Again the findings are clear-cut: once wealth effects are accounted for, “political regimes have no impact on the rate of growth of total income” (Przeworski, p. 323 in this volume); and, in particular, earlier arguments that democracy discourages investment in poor countries find no support whatever in the evidence. The one clear, and clearly important, effect of regime type is that democracies, except in the poorest countries, afford workers a higher share of total social product and—because output per worker in democracies tends also to be greater—a far higher average income.

The empirical findings are thus clear and (except as noted below) almost indisputable. But why should these findings be true, i.e., what could be the causal mechanism behind them? Exactly as in the now voluminous literature on the “democratic peace” (democracies almost never make war against other democ-
racies), we have very powerful empirical results without any very persuasive logic of causation; or, as Paul Krugman has put it in quite a different connection, the rare case in social science where the data are far better than the theory. Why should democracies never die in wealthy societies, while even enormous wealth cannot guarantee that democracy will be born? Why should regime type have had no effect on investment or growth in the latter half of the twentieth century, and how can we reconcile that finding with leading historians’ (and economic historians’) conclusion that regime type mattered enormously for growth in the eighteenth and nineteenth centuries (North and Weingast 1989; O’Rourke and Williamson 1999), and indeed probably in much earlier ages (North 1981 and 1990; Lal 1998).

To his credit, Przeworski attempts in this essay (a) to develop a game-theoretic model of how dictatorships endure or crumble (Przeworski, pp. 303–8 in this volume) and (b) (Przeworski, pp. 308–10 in this volume; and Przeworski 2002) to outline a causal mechanism of democratic survival, which hinges on workers’ implicit comparisons of their average earnings under democracy (even if a pro-capital party holds power) versus dictatorship. Both efforts are admittedly tentative and preliminary, but at this stage I think neither gets us very far. Fortunately it is not my task, in this brief compass, to propose a coherent alternative; but a “cure in history” may offer some guideposts.

Start with the paradoxically more tractable question of how regimes might relate to investment and growth. To economists, the basic issue is plain: growth is retarded by distortions of at least two kinds: (a) “getting the prices wrong,” i.e., paying factors more or less than their marginal product; or (b) making property rights insecure. Since about 1830, three stylized facts have obtained: (1) “right” authoritarianisms (traditional monarchies, Fascism) have paid landowners and capitalists more than their marginal product, workers less, for the simple reason that under them landowners and capitalists held political power; (2) “left” authoritarianisms (Communism, Peronism, many postcolonial regimes) have paid workers (and especially urban workers) more than their marginal product, while making property rights highly insecure; and (3) democracies have landed somewhere in between (with social democratic “wage compression” policies clearly paying unskilled workers more than their marginal product), but usually have guaranteed considerable security of property rights. For most of the period, this meant—as O’Rourke and Williamson (1999) document for the period before World War I—that democracies, or at least more representative regimes, which tended usually to be less protectionist, performed better. But especially after 1945, some “right” authoritarianisms, especially in East Asia, both “got the prices right” and guaranteed property rights, with the result that they performed even better than the democracies (while the Communist and Peronist regimes performed far worse).
The same trichotomy may help us to understand the link between wealth (now taken as exogenous) and democracy. The “left” dictatorships remain poor (or, as in most of sub-Saharan Africa since 1960, actually grow poorer), and the most distortionary “right” dictatorships (in nineteenth-century Europe, Spain, and Portugal) grow slowly; so that when we look at wealthy societies we are really comparing only a subset of “right” dictatorships (those that managed mostly to “get the prices right”) with a nearly complete set of democracies (excluding only the few really poor democracies, e.g., India). In any rich and complex society, a coup d’état is almost impossible (as Luttwak [1968] observed over three decades ago), so a rich democracy could yield to dictatorship only with broad popular assent: extremely unlikely, but under mortal threat (Israel? Northern Ireland?) at least imaginable. But even a rich and clever “right” dictatorship is fragile: it grows more rapidly, attracts more investment, but—as Przeworski demonstrates—pays workers a smaller share of even a rapidly growing social product; and, as with any case of highly concentrated power (cf. Rasmussen and Ramseyer 1994), is more susceptible to graft. (On all counts, think only of China as it will probably be in another decade.) If at any point it stumbles—economic growth falters, graft becomes too burdensome or too public—the pressure for democratization swells. Yet because these dictatorships are clever (else they would not have become rich), these stumble may be indistinguishable from a normal “accumulation of random hazards” (Przeworski, p. 306 in this volume).

To try to clarify what I am suggesting: I think Przeworski is entirely right to dismiss most of the teapot tempest about whether democracy can be adequately counted as a dummy variable (for most purposes that we care about, it can). But he obscures a lot by counting nondemocracy as a single category, since history reveals at least three kinds of nondemocracy: biased in favor of the rich, in favor of the poor, and—much more rarely—in favor of rapid development. Only by disentangling these, by taking the kind of detailed look at history that O’Rourke and Williamson (among a few others) have offered, and—above all—by offering as a theoretical account that is as persuasive as his empirical results, will Przeworski fully persuade his readers that the regularities he has so brilliantly uncovered constitute a “law” of social science.

Notes
1. I recall Krugman’s having uttered this memorable phrase in a lecture at UCLA sometime in the early 1990s. In the book that he was then working on, it became a less memorable phrase: “the real data [in this case] are cleaner than anyone’s theory” (Krugman 1996, 46).
2. I confess to mild skepticism about this finding, given the strong evidence of massive economic failure in the Communist states. I suspect that two effects are being conflated in
Przeworski’s analysis of nondemocracies: the Communist failures, and the East Asian successes (Korea, Taiwan, Singapore, China; see further discussion below).

3. Concretely, nondemocracies could probably be grouped according to urban labor’s share in total output: very low in the first case, very high in the second, and moderately low in the third.
COMMENTARY

The Asymmetry of Democratization and Democratic Breakdown (or Is It Authoritarianization and Authoritarian Breakdown?)

W. PHILLIPS SHIVELY

Przeworski’s work on this question has offered a striking—one could almost say revolutionary—advance in how we have thought about democracy and its origins in the economy. Virtually all other work on “democratization” has tried to explain the coming of democracy by looking for proximate causes. Not only the modernization literature, which Przeworski and Limongi (1996) took as their foil, but the entire literature on democratization has looked almost exclusively at various sorts of proximate causes, economic and otherwise, to explain shifts from authoritarianism to democracy. This is consistent with our general overreliance in political science on simple proximate causation. Perhaps it comes from the introductory methods courses in which we all learned to understand causation by considering what happens when one billiard ball strikes another.

Przeworski and his colleagues argue for a strikingly different model of how the state of the economy brings about democracy. They argue that the coming of democracy is not caused proximately by the state of the economy, but instead has so many different sorts of proximate causes that it might as well be treated as stochastic. The well-known relationship between prosperity and democracy results, then, from differing probabilities that democracy will be replaced by authoritarianism at different levels of prosperity. For any given level of per capita GDP, they posit in effect a Markov chain in which authoritarian regimes yield to democracy at a certain rate, and democracies yield to authoritarian regimes at another rate. The resulting levels of democracy at each level are the equilibriums of these two rates. For instance, at per capita GDP of $5,000–$6,000, the probability that a democracy will become an autocracy is .006, while the probability that an autocracy will become a democracy is .032; given these rates, we would not expect to find that all countries as prosperous as this were democracies. (If that were the case, a few would shift back to autocracy, given the probability of .006 that they would do so.) But, there should be an equilibrium in which a large proportion of such countries are democratic. As per capita GDP increases, the two probabilities change so that the equilibrium level of democracy increases as well. The state of the economy functions,
then, not as a proximate cause but as an environmental factor determining the expected rate of democracy at equilibrium.

Why is this important? Perhaps the best way to see its importance is to look at another example of such reasoning, from biology. If Darwin had sought to explain the size of finches’ beaks in the Galapagos by proximate causes, he would probably have led us to consider all sorts of untrue, and therefore unhelpful, sources of beak size. As it was, he correctly understood that we should look to various factors in the environment as conditioning factors that determine the rate at which certain characteristics such as beak size are carried over from one generation to the next. Przeworski’s recasting of the problem of explaining democracy makes an equally useful contribution—though of course, it leaves us somewhat short of a theory of the evolution of regimes!

Working within this view of explanation, how does Przeworski account for varying rates of democratic and authoritarian regimes? His main concern, of course, is the relationship between prosperity and democracy. But to understand that relationship as he has posited it, he must show that while the initiation of democracy is essentially a stochastic event, the breakdown of democracies is strongly dependent on the state of the economy. He reviews exhaustively the possible causes of democratization and of the collapse of democracies, finding that there are many and varied proximate causes of democratization, none of them very important. In the case of the collapse of democracies, however, he finds that per capita income determines collapse strongly; the only other substantial factor is whether the democracy was a parliamentary system (good) or presidential (bad). I am suspicious of the causal direction in the parliamentary/presidential case, however, since many troubled democracies have put presidential systems in place in an effort to put a lid on instability. (France and Nigeria come to mind, but there are many others.) Thus, it may well be that unstable democracy causes presidentialism, rather than vice versa.

My conclusion from the paper, then, which I take perhaps even a bit more strongly than Przeworski, is that there is a dramatic asymmetry between the initiation of democracy and the collapse of democracy, with the former essentially stochastic and the latter strongly dependent on prosperity. The difference is charted in figure 7.1, drawn from the probabilities listed in Przeworski’s table 7.1.

What are we to make of this asymmetry? We should first note, as Przeworski does (Przeworski, p. 303 in this volume), that since we are dealing only with two alternative types of regime, “initiation of democracy” is the same as “collapse of authoritarianism,” and “collapse of democracy” is the same as “initiation of authoritarianism.” So, to say that the initiation of democracy is essentially stochastic but that the collapse of democracy is strongly conditioned by the economy is the same as to say that the collapse of authoritarianism is essentially stochastic but that the collapse of democracy is strongly conditioned by the economy (let us
call this Formulation B). And a third way to state the same thing is to say that the initiation of democracy is essentially stochastic but that the initiation of authoritarianism is strongly conditioned by the economy (Formulation C).

Implicitly framing the asymmetry as Formulation C, Przeworski suggests the following reason why the initiation of democracy is essentially stochastic: “The reason transitions to democracy are so difficult to predict by observing the conditions under which dictatorships are [ended] are that conditions determine only the possibility that a transition to democracy would occur, but it is actions of people under these conditions which shape the outcomes” (Przeworski, p. 304 in this volume). He then propounds a game theoretic argument to show that actors’ decisions to establish democracy could be based on a wide variety of factors. He never argues the opposite about the initiation of authoritarianism, but it would be required if we were to account for the asymmetry shown in figure 7.1. In order for transitions from democracy (initiations of authoritarianism) to be strongly related to per capita GDP, it would appear to be necessary, by Przeworski’s logic above, that the initiation of authoritarianism not be determined by “the actions of people.” Put this way, it is clear that the explanation cannot account for the asymmetry. If because people’s actions drive the initiation of democracy, therefore the initiation of democracy is essentially a stochastic event, then it would have to be the case, since people’s actions also drive the initiation of authoritarianism, that that would be essentially a stochastic event—but it isn’t.

How, then, are we to account for the asymmetry? My own hunch is that the best way is to think of it in terms of Formulation B: the collapse of authoritari-
anism is essentially stochastic, but the collapse of democracy is strongly conditioned by the economy. Why should authoritarian systems, while they are at greater risk than democracies overall, not be put at unusual hazard by poor economic conditions, as economies are? Since what we are comparing here are different kinds of regimes, the obvious first place to look is the nature of the regimes. The one clear difference between democracies and authoritarian regimes, which Przeworski has explored in various ways throughout his work, is that in democracies all actors must assume future alternations in power. One implication of this would be that the losers must be placated for the present while they hope to take power at some point in the future, and it is probable that this is easier to do in a society with ample resources.

This is of course only a sketch of an explanation, and I do not know whether it would hold up to real examination and development, but it suggests a kind of explanation I would like to see. Later in the paper, as Przeworski wrestles with the problem of why democratic survival is greater in prosperous countries, he develops an explanation based on risk aversion. He argues that economic outcomes for actors of political conflict in dictatorships have a wider possible range than in democracies, and are less predictable. Thus, he says, "even if the income a particular group expects when it turns against democracy is higher than the income it expects under democracy, the possibility of losing a struggle over dictatorship is foreboding in affluent societies. As per capita income increases, more is at stake and even permanent electoral losers prefer to obey election results. It is risk aversion that motivates everyone in affluent societies to obey the results of electoral competition." My problem with this explanation is that I would assume that more is at stake in poor societies than in prosperous ones. If a drop of one-third in your income means that you must sell the cow, I assume that that means more to you and your children than a drop of one-third of income means to an average West European, serious though that is. Since disaster is always closer to citizens of a poor country, I would think that it is those citizens—not the citizens of richer countries—who would strive to maintain a system that makes their outcomes more predictable.

While the question of how we explain the rise and fall of democracies is certainly important, the reservations I have raised about particular aspects of Przeworski’s explanation are perhaps a bit quibbly. The overall architecture of his explanation—his recasting of the question into one of the conditioned survival of democracies, rather than of proximate causes; his demonstration of the asymmetry between the initiation of democracy and the collapse of democracies; and his end conclusion that democracy leads if anything to greater growth than dictatorships in per capita GDP—allow him finally to voice his triumphant conclusion: "we did not find a shred of evidence that democracy need be sacrificed on the altar of development."