DPI 403 Class 4

The impact of democratic governance on economic growth and social welfare
Structure of the class

I. Recap: Democratic Governance

II. Advocacy: does democratic governance matter *instrumentally* for development?

III. Does democratic governance lead to *economic growth*?

IV. Does democratic governance lead to *social welfare*?
Required readings


I. Does democratic governance matter instrumentally for development?
<table>
<thead>
<tr>
<th>Governance</th>
<th>Restricted Voice and Accountability</th>
<th>Inclusive Voice and Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded governance</td>
<td>Bureaucratic autocracies E.g. China</td>
<td>Bureaucratic democracies E.g. Canada</td>
</tr>
<tr>
<td>Limited governance</td>
<td>Patrimonial autocracies E.g. Zimbabwe</td>
<td>Patrimonial democracies E.g. Mali</td>
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</tbody>
</table>
The debate about impact

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II. Does democratic governance lead to economic growth?
The debate about impact

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Why? Plausible reasons?

- Elected leaders have strong incentives to respond to social needs
- Democracy has checks and balances
- Open flow of information, transparency, less corruption
- Democratic adaptability and smooth leadership succession, more predictability
- Commitment to rule of law
- Feedback learning, trial-and-error
Systems model of public policy process
(David Easton)

Agenda-setting >>
Decision-making >>
Implementation >>

Public Opinion
- Groups
- Parties
- Elections
- Media

Policy-making institutions
- Executive
- Legislature
- Judiciary

Outputs
Outcomes

Feedback learning
Rodrik et al ‘Institutions Rule’

- Trade (markets)
- Institutions (property rights, rule of law)
- Geography (climate, resources, transport, health, communications, agriculture)

Economic growth

Endogeneity? Reverse causality? Instrumental variables
Rodrik model

- Income level (GDP per capita)
- Integration (ratio trade/GDP)
- Institutions
- Geography (distance from equator)
Chart 1
The "deep determinants" of income

Development and its determinants are related in multiple and complex ways, making the task of determining and quantifying causality difficult.
Institutional variables

- Institutions = property rights and rule of law
- Measured by Kaufmann-Kraay/World Bank
- Settler mortality rates (Acemoglu 2001)
- Instruments are measured by settler mortality rates (79 nations) and by % speaking West European languages (137 nations)
Institutional quality scores high
Institutional quality can boost income significantly, while global integration and geography, on their own, do not.

As institutional quality rises, so does income ... but increases in integration may not help ... nor does a more benign geographic location.

Source: Authors
Note: The graphs capture the causal impact of each of the determinants on income, after controlling for the impact of the others. The indicators of integration and geography used are the ratio of trade to GDP and distance from the equator, respectively. For further details, see Rodrik, Subramanian, and Trebbi (2002).
*Expressed in terms of purchasing power parity, 1995.
Table 2. Determinants of development: Core specifications, ordinary least squares estimates.

<table>
<thead>
<tr>
<th>Log GDP per capita</th>
<th>Acemoglu et al. Sample</th>
<th>Extended Acemoglu et al. Sample</th>
<th>Large Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
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<tr>
<td>Dependent Variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geography (DISTEQ)</td>
<td>0.74</td>
<td>0.20</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td>(4.48)*</td>
<td>(1.34)</td>
<td>(1.85)**</td>
</tr>
<tr>
<td>Institutions (RULE)</td>
<td>0.78</td>
<td>0.69</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td>(7.56)*</td>
<td>(6.07)*</td>
<td>(9.35)*</td>
</tr>
<tr>
<td>Integration (LCOPEN)</td>
<td>0.16</td>
<td></td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td>(1.48)</td>
<td></td>
<td>(1.53)</td>
</tr>
<tr>
<td>Observations</td>
<td>64</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>R-square</td>
<td>0.25</td>
<td>0.57</td>
<td>0.59</td>
</tr>
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Notes: The dependent variable is per capita GDP in 1995, PPP basis. There are three samples for which the core regressions are run: (i) the first three columns correspond to the sample of 64 countries in Acemoglu et al. (2001); (ii) columns (4)–(6) use a sample of 79 countries for which data on settler mortality (LOGEM4) have been compiled by Acemoglu et al.; and (iii) columns (7)–(9) use a larger sample of 137 countries. The regressors are: (i) DISTEQ, the variable for geography, which is measured as the absolute value of latitude of a country; (ii) Rule of law (RULE), which is the measure for institutions; and (iii) LCOPEN, the variable for integration, which is measured as the ratio of nominal trade to nominal GDP. All regressors are scaled in the sense that they represent deviations from the mean divided by the standard deviation. All regressors, except DISTEQ and RULE, in the three panels are in logs. See the Appendix for more detailed variable definitions and sources. t-statistics are reported under coefficient estimates. Significance at the 1, 5, and 10 percent levels are denoted respectively by *, **, and ***.
Rodrik Conclusions

“The quality of institutions trumps everything else. Once institutions are controlled for, integration has no direct effect on incomes, while geography has at best weak direct effects.” p135.

- Alternative measures, robust results
- Instrument not an explanation: colonial history?
- Policy implications? ‘Not much at all’ (!) eg varied property rights in China and Russia
- Strengths and limits of this account?
# The debate about impact

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**Economic prosperity**

- Good governance (rule of law, property rights)
- lead to growth (Rodrik et al) 

**Social welfare**

- Democracy strengthens development (Siegle et al)
- Democracy has no impact on health indicators (Ross)
Przeworski et al. ‘No’

- Does democracy undermine growth?
- Growth rates of productive inputs
  - Investment share in GDP
  - Probit model controlling for income, Britcol, religion
- Unit of measurement: type of regime per year 1950-1990 (dictatorship v. democracy)
Przeworski et al.

- Conclusions: “There is no trade-off between democracy and development, not even in poor countries.” p178.
- In poor countries (with incomes below $3,000), the two regimes are almost identical in their:
  - Investment shares
  - Growth of capital stock
  - Growth of labor force
  - Output per worker
  - Product wages
- Democracy need not be sacrificed to economic development
Yet important distinction between rich and poor nations

**Poor nations** invest little, get little value from total factor productivity and pay low wages
- Most poor nations remain poor
- Regimes make no difference for growth
- Democracy is fragile in poor nations so most have dictatorships

**More affluent nations** ($2500-3000+)
- Total growth rates similar for dictatorships and democracies
- Yet reasons for growth differ…
  - **Wealthy dictatorship** grow by using a lot of labor and paying low wages (repressing unions) – labor-intensive productivity, higher birth rates/fertility but shorter longevity (esp. for women)
  - **Wealthy democracies** grow by using labor more effectively: slower population and labor growth rates but higher wages, benefit more from technical progress
Przeworski et al. conclusions

- The kind of regime does not affect the rate of investment, the growth of capital stock (p153), or the growth of total income (p156)
- “There is no trade-off between democracy and development, not even in poor countries.” P.178
- “Much ado about nothing.”
- **Strengths and limits of this account?**
- **Why the contrasts with Rodrik’s account?**
III. Does democracy lead to social welfare?
The debate about impact

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Ross ‘No’

- AJPS 2006
- “Is democracy good for the poor?”
- Democracy is linked to higher spending on health, education, and social security
- Yet “Democracy has little or no effect on infant and child mortality.”
- Previous studies fail to control for country-specific effects and for global health trends, and they have sample bias (autocratic states often have missing data)
Ross’s model

- 168 states 1970-2000 pop over 200,000
- 5 year panels
- Dep var=logged infant and child mortality
- Independent var=Polity IV democracy-autocracy scale
- Control for income, pop density, econ growth, HIV-Aids
- Missing data imputed (Amelia)
- OLS panel-corrected Standard Errors (PCSE) and lagged dependent var
- A fixed effects model (controls for country-specific effects but underestimates sig of slow/stable vars)
Ross

- No relationship between type of regime and infant/child mortality rates
- Why? “We know little…”
- Incomplete information by voters?
- Weak channels of accountability?
- **Strengths and weaknesses of this study?**
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Siegle et al ‘Yes’

- Democracies consistently out-perform autocracies in the developing world
- Classify regimes by Polity IV index
- Compare low-income nations (GDP under $2000 constant 1995 dollar terms)
- World Bank data 1960-2001
- No difference found in levels of economic growth
- Better measures of well-being
  - Life expectancy, access to clean water, literacy, health services, infant mortality
- Avoid humanitarian crisis and severe economic contractions
Halperin, Siegle and Weinstein
Classification of nations

- Compare all nation states 1960 to 2001
- Low-income nations (per capita less than $2000)
- Contrast low-income autocracies and democracies
- Classification by Polity IV

Ref: Halperin, Siegle and Weinstein
Halperin, Siegle and Weinstein

Concepts

- Democracy: “Governance systems in which national leaders are selected through free and fair elections, there are institutions that foster a shared distribution of power, and citizens have extensive opportunities to participate in political life.”

- Polity IV democracy index
Use Polity IV index

- Rates 161 states every year since 1800
- 0-10 scale
  - Constraints on the chief executive (1-4)
    - Independence of the chief executive
  - The competitiveness of executive recruitment (1-2)
    - Extent to which chief executive is chosen through competitive elections
  - The openness of executive recruitment (1)
    - Opportunities for non-elites to attain executive office
  - The competitiveness of popular participation (1-3)
    - Extent to which non-elites are able to access institutional structures for political expression

- Democracies: score 8 to 10
- Intermediary states: 3 to 7
- Autocracies: score 0 to 2
Halperin, Siegle and Weinstein
Economic Growth

- Among all countries, democracies have realized consistently higher levels of economic growth from 1960-2001 (2.3% vs. 1.6%).

- Among low-income countries, no difference in per capita growth in GDP between democracies and autocracies (1.5% to 1.3%) (confirms Przeworski)
  - When East Asia is removed, the authoritarian growth rate of growth drops while the democratic rate remains steady
  - Low income democracies have less volatile growth
  - Note: prob. of missing/unreliable data for autocracies
Halperin, Siegle and Weinstein
Economic indicators

Note: Poor nations only (GDP/cap under $2000)
Polity DEMOC: 35 Autocracies, 25 Mixed, 16 Democracies
Halperin, Siegle and Weinstein
East Asian exceptionalism?


- Pursuit of market economics
- Access to capital markets
- Constraints on leaders
- Relative social equality
- Openness to Western markets
- Security interests

Also failures (Burma, Cambodia, N. Korea)
Halperin, Siegle and Weinstein
Social indicators

- On average, low income democracies consistently have superior levels of welfare across various measures of human development
  - Life expectancy
  - Secondary school enrollment
  - Agricultural production
  - Childhood mortality
  - HDI
- Growing divergence in recent decades
- Due to greater effectiveness NOT higher welfare spending (eg education)
Halperin, Siegle and Weinstein
Social Indicators

Note: Poor nations only (GDP/cap under $2000)
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Halperin, Siegle and Weinstein
Social Indicators

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Halperin, Siegle and Weinstein
Government expenditure

Spending & aid as % GDP.
Poor nations only (GDP/cap under $2000)
Polity DEMOC 35 Autocracies, 25 Mixed, 16 Democracies
Halperin, Siegle and Weinstein
Policy implications?

Multilateral agencies should prioritize democracies by...

1. Use democratic conditionality when allocating aid
   - Eg MCA
2. Revise charters WB, IMF & regional banks to favor democratic regimes
3. Use democracy-impact statements
4. Separate security aid from development aid
5. Develop cohesive Development Policy coordination Council (Sec State, Treasury, MCA, USAID)
IV. What are the policy implications?
Advocacy debate:

- You are asked to break up into discussion pairs.
- You have 15 minutes allocated for the paired discussions.
- You are asked to draw upon the readings for this class and your own arguments and experience.
- For policy advocacy, you should either argue for or against the proposition that democratic governance reduces poverty and improves welfare.
- Give a series of reasons, ranked in importance using the template overleaf, supported by evidence or case illustrations wherever possible.
- After 15 minutes, we will compare the reasons for or against the proposition in plenary, to see if a consensus emerges.
# Template

<table>
<thead>
<tr>
<th>PRO: Reasons why democratic governance reduces poverty and strengthens social welfare.</th>
<th>Evidence, examples, support for this claim</th>
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<tr>
<td>7</td>
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Next class
Does democracy lead to a peace dividend?

Class Materials: www.pippanorris.com