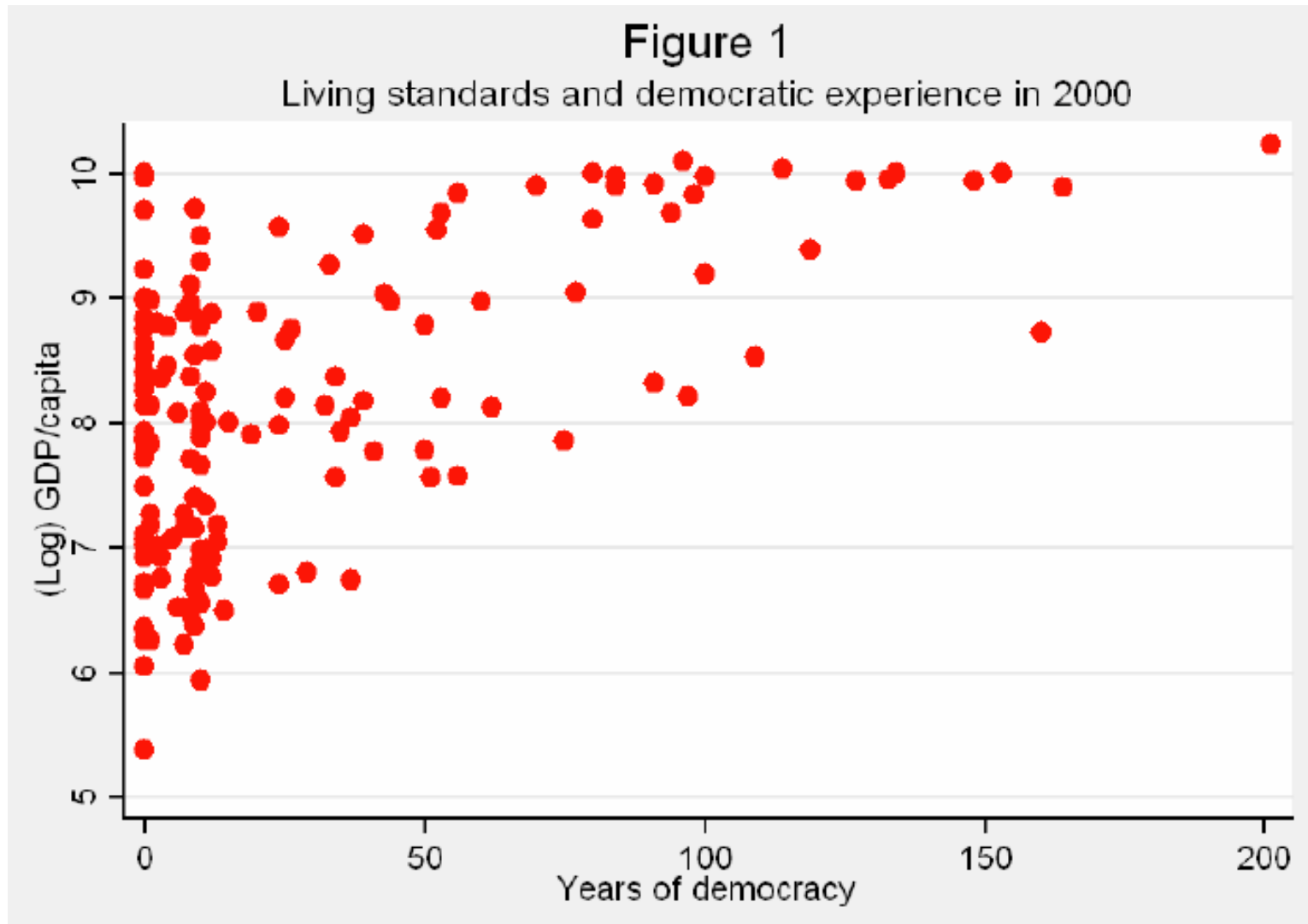


Democracy and Development

Guido Tabellini

ECES, May 24, 2011

Economic and Political Development



Two big questions

1. Determinants of Democracy

2. Economic effects of Democracy

- Form of democratic constitution
- Economic regime (open vs closed)

Draw on joint work with Torsten Persson (Stockholm U.) and
Francesco Giavazzi (Bocconi)

Sample

Democracy

Polity IV data set (1800-2000, 150 countries)

D if $polity2 > 0$

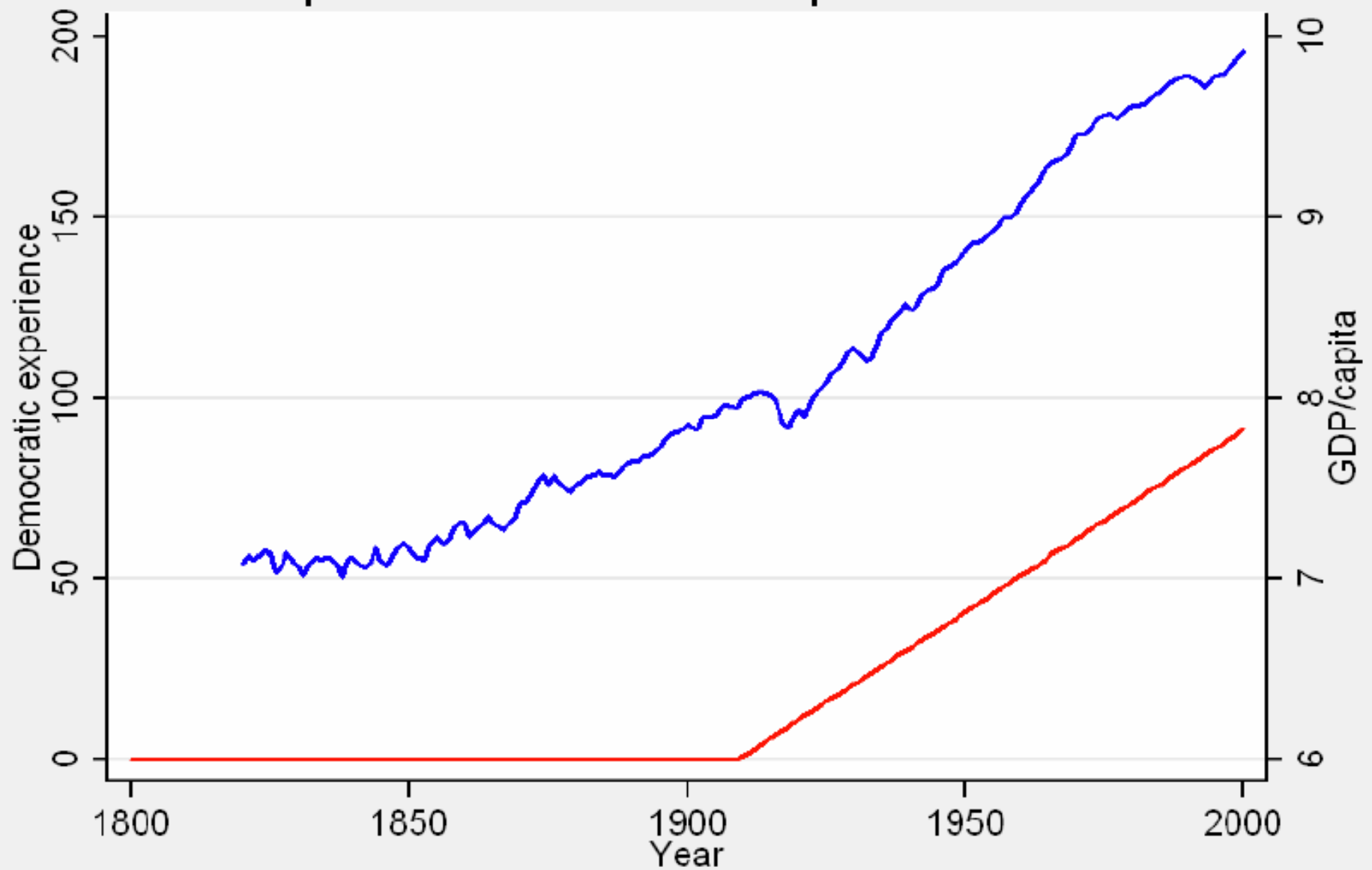
120 reforms in 1960-2000, 250 reforms in 1850-2000

Development (GDP per capita)

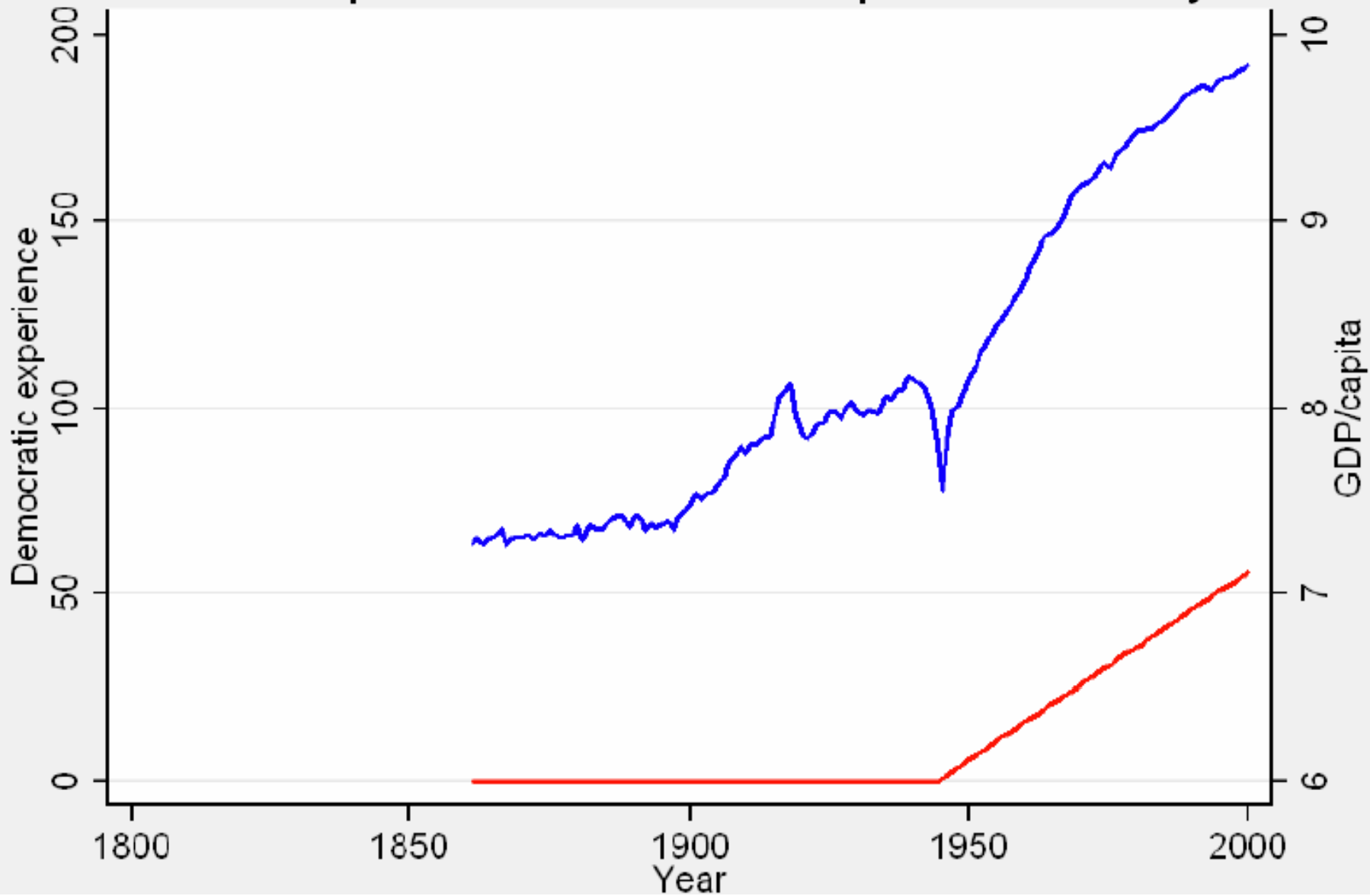
Penn World Tables 1960-2000

Maddison 1850-2000

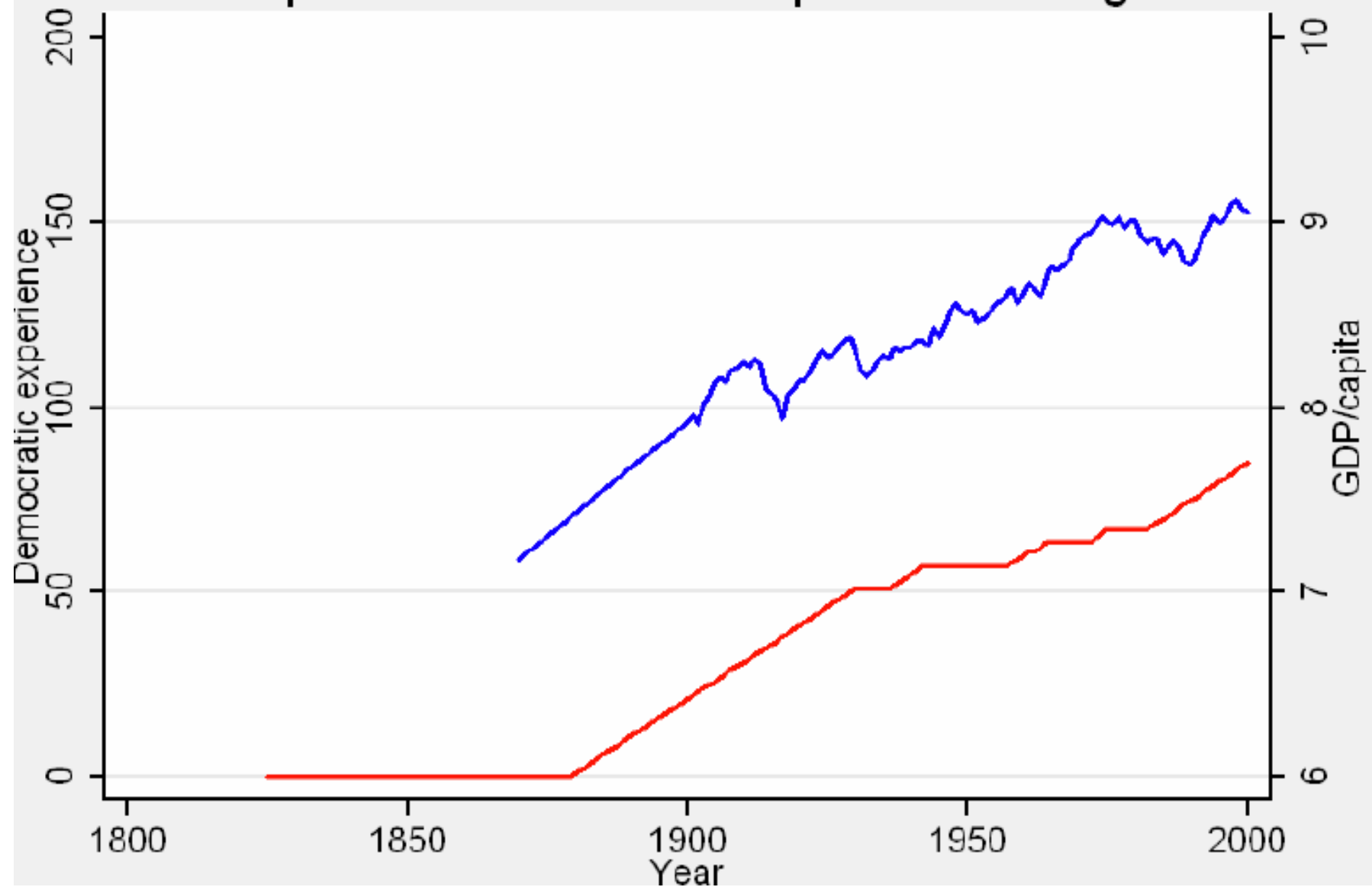
GDP/capita and democratic experience in Sweden



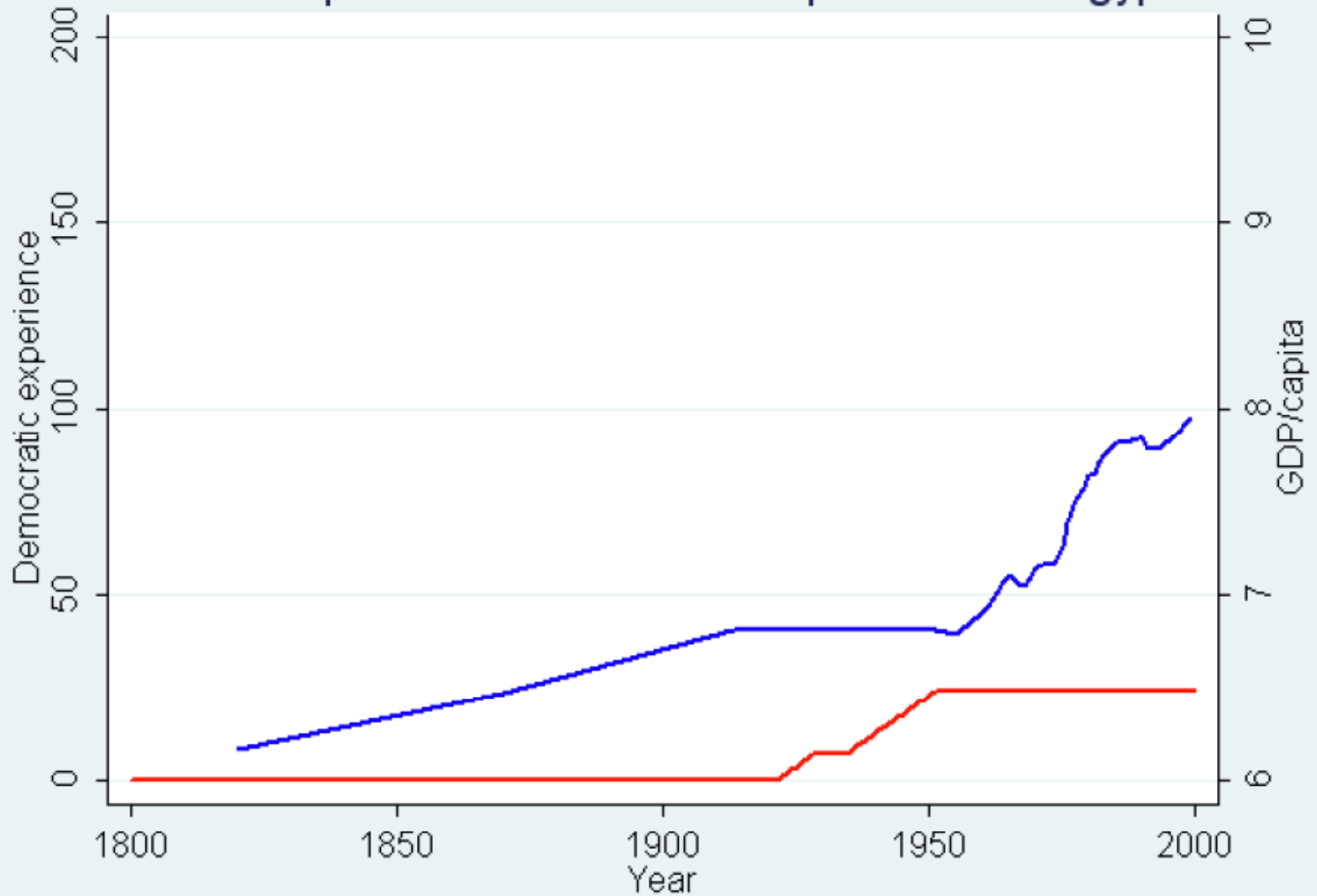
GDP/capita and democratic experience in Italy



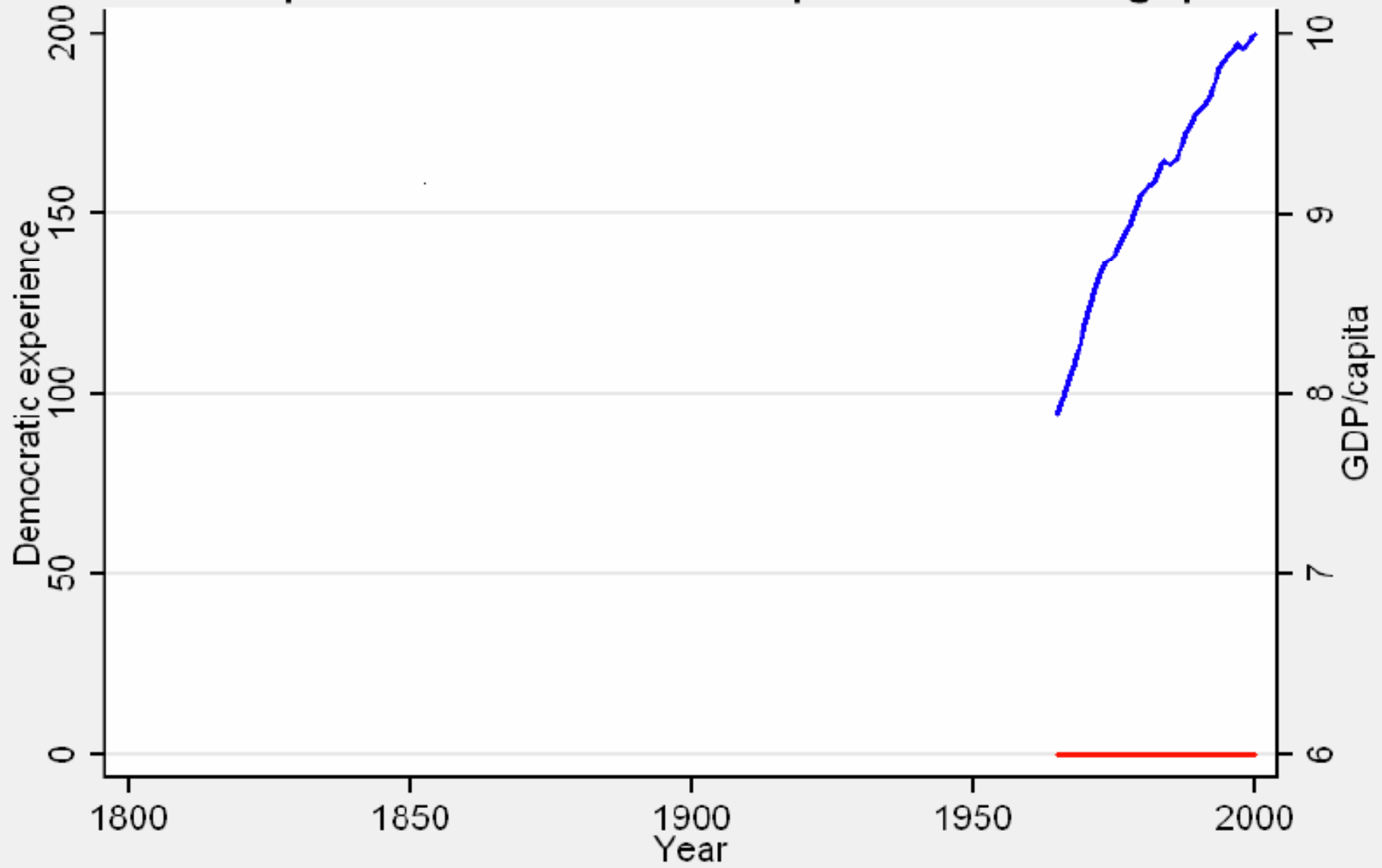
GDP/capita and democratic experience in Argentina



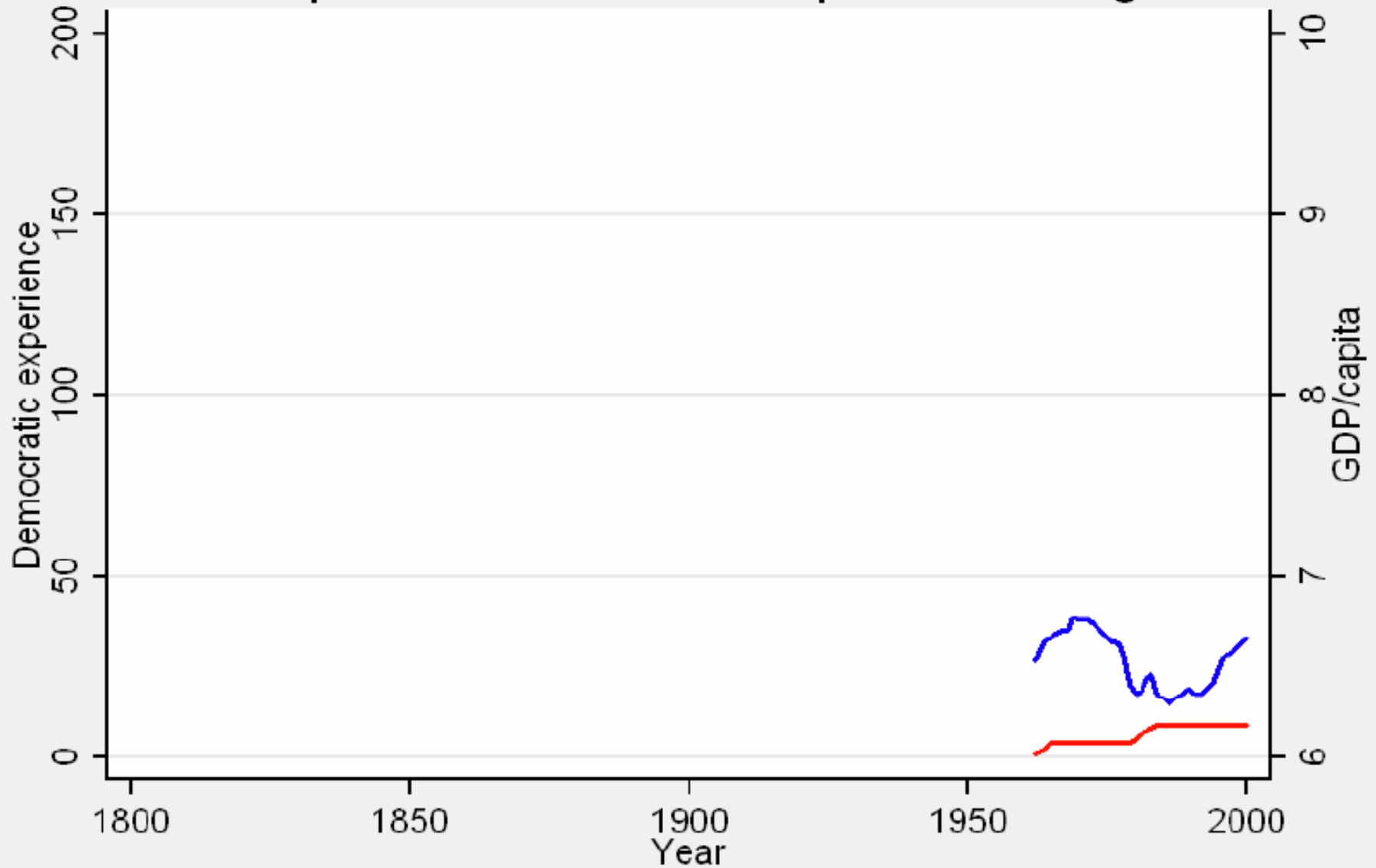
GDP/capita and democratic experience in Egypt



GDP/capita and democratic experience in Singapore



GDP/capita and democratic experience in Uganda



1. Determinants of democracy

Methods

- Estimate probability of regime change (towards / away from democracy)
 - Hazard rate or linear probability model
- Linear regression with continuous variable *polity2* as dependent variable
- Pool time series & cross country data, or only time series data (within country estimation)

1. Determinants of democracy

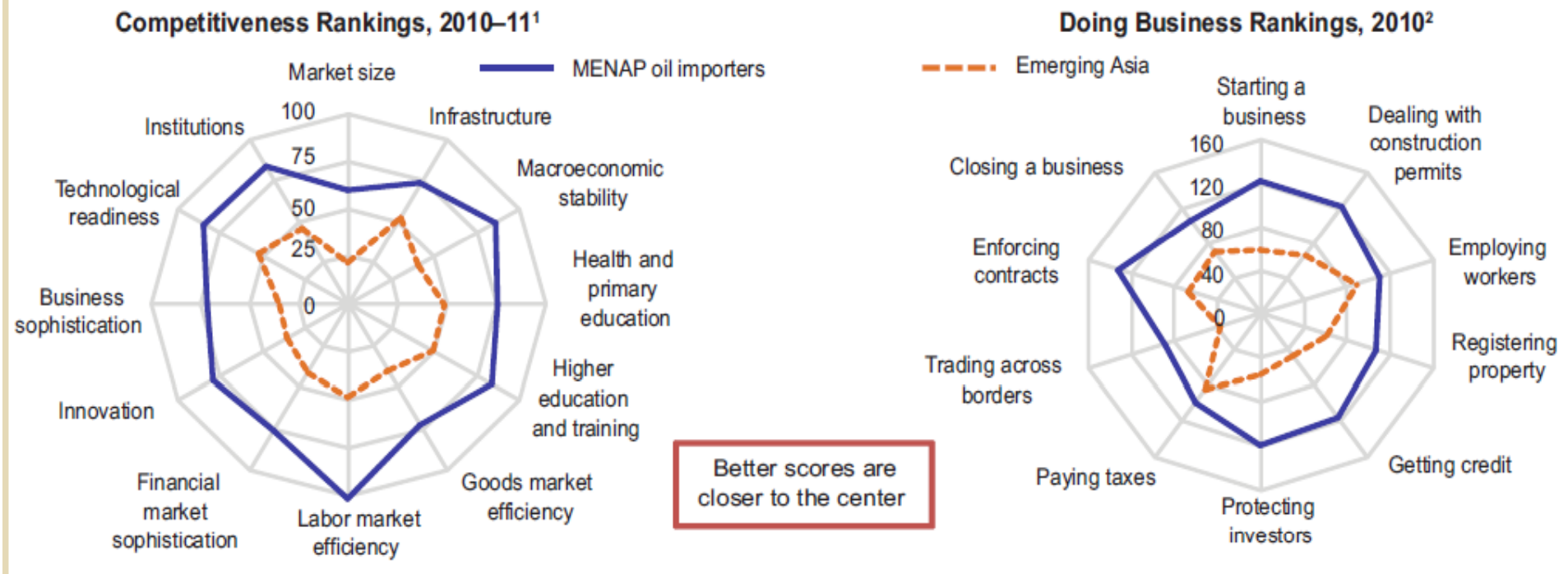
Findings

- Modernization theory
 - Education / Income (domestically produced)
- Economic Structure
 - Economic Liberalization & Integration with world economy
 - Middle Classes
- Cultural and Historical forces
 - History of democracy inside / in neighboring countries
(domestic and foreign democratic capital)

Middle East and Northern Africa

Economic Liberalization

Competitiveness and Doing Business Indicators



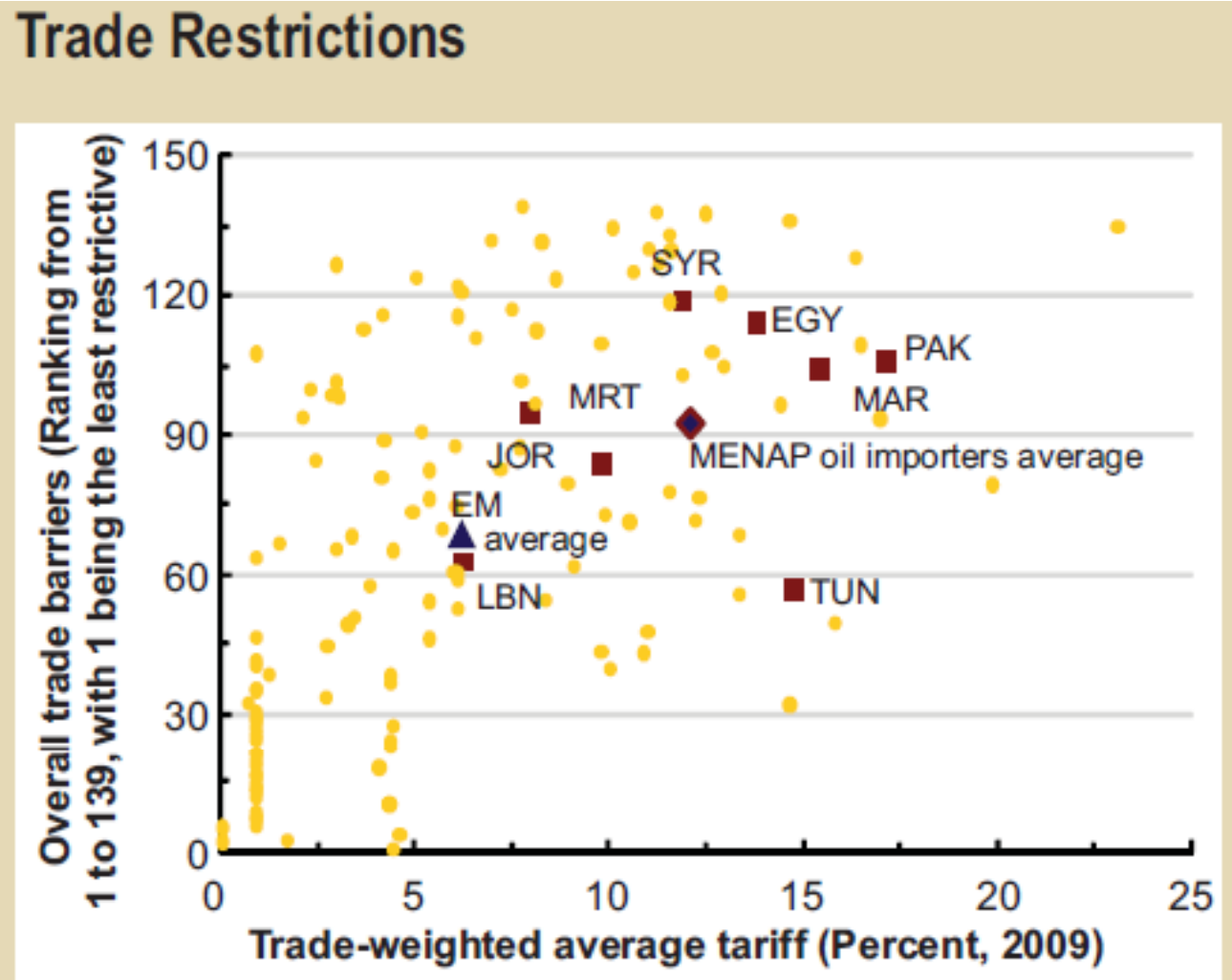
Sources: World Economic Forum, Global Competitiveness Report, 2010–11; World Bank, Ease of Doing Business Rankings, 2010.

¹Economies are ranked from 1 to 139, with first place being the best. MENAP oil importers is a simple average of Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.

²Economies are ranked from 1 to 183, with first place being the best. MENAP oil importers is a simple average of Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.

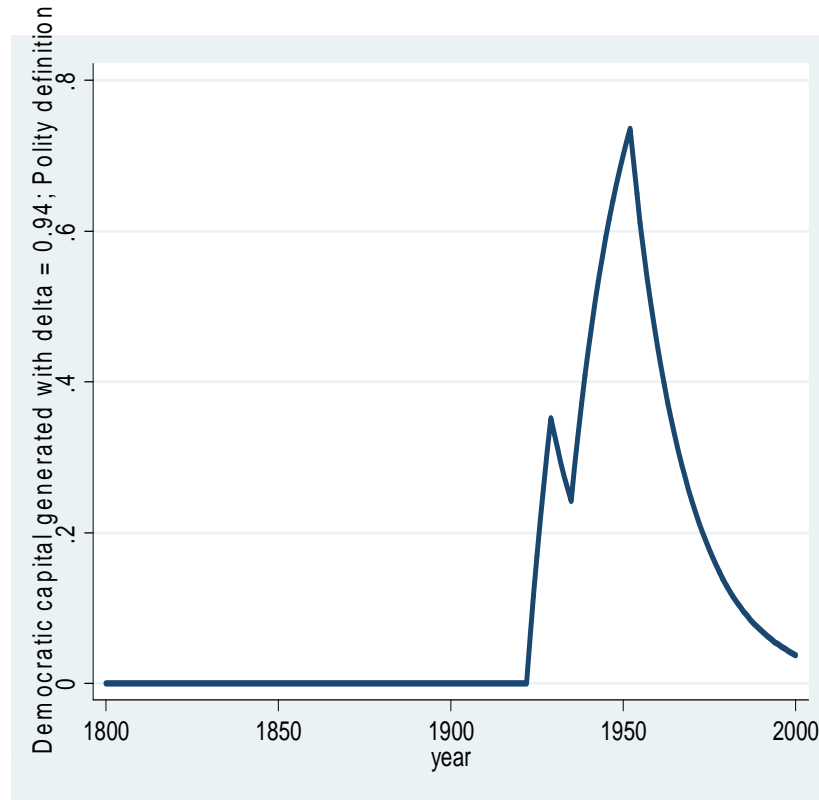
Middle East and Northern Africa

Economic Liberalization

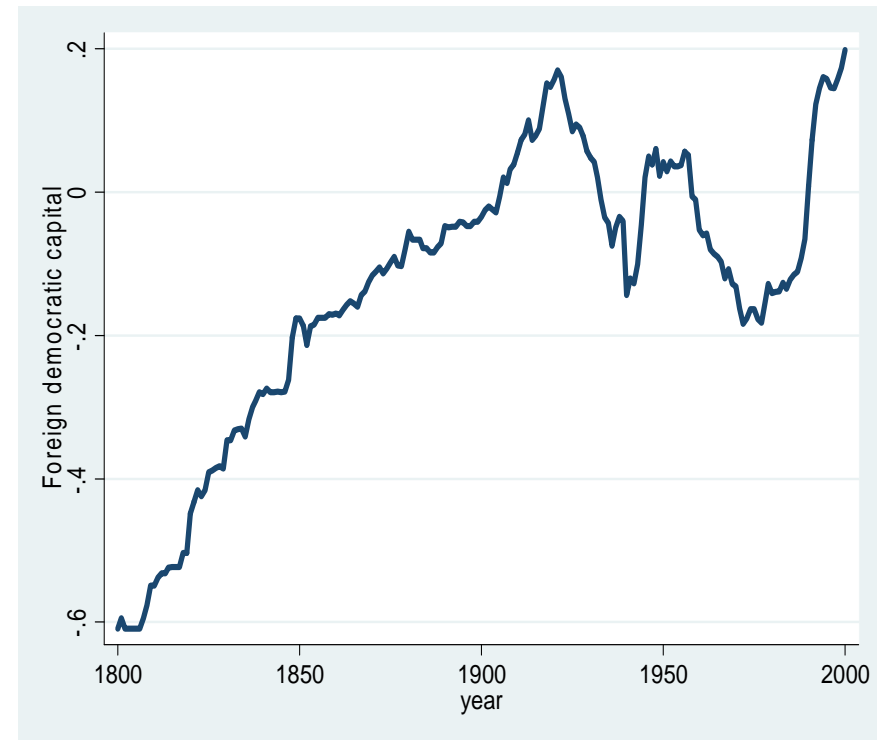


Source: World Economic Forum, Global Competitiveness Report, 2010/11.

Democratic Capital in Egypt



Domestic democratic capital



Neighbors' democracy

Summary on the determinants of Democracy in MENA

- Tunisia and Egypt are very different from all the other countries in the region

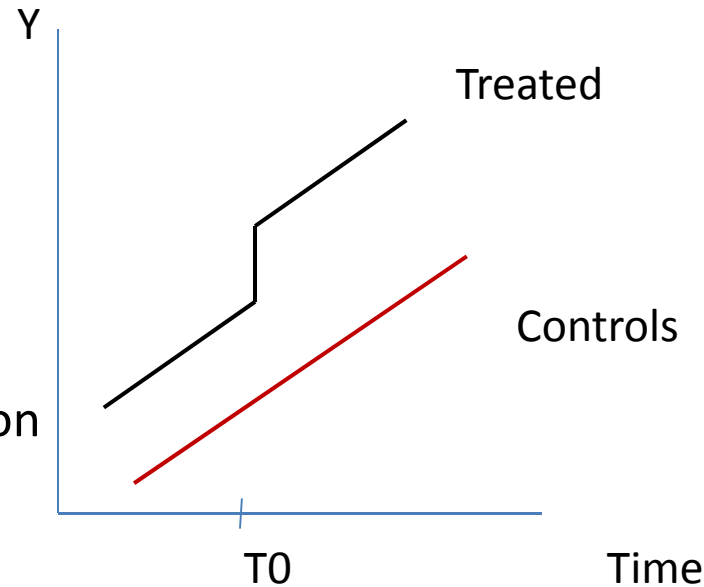
2. Economic Effects of Democracy

Methods

- Diff in Diff

Possible pitfalls:

- Omitted variables
- Heterogeneous effects correlated with D adoption



- Semiparametric methods (propensity score)

Match and compare similar treated / control countries, giving more weight to more similar countries

Like case studies, but more rigorous

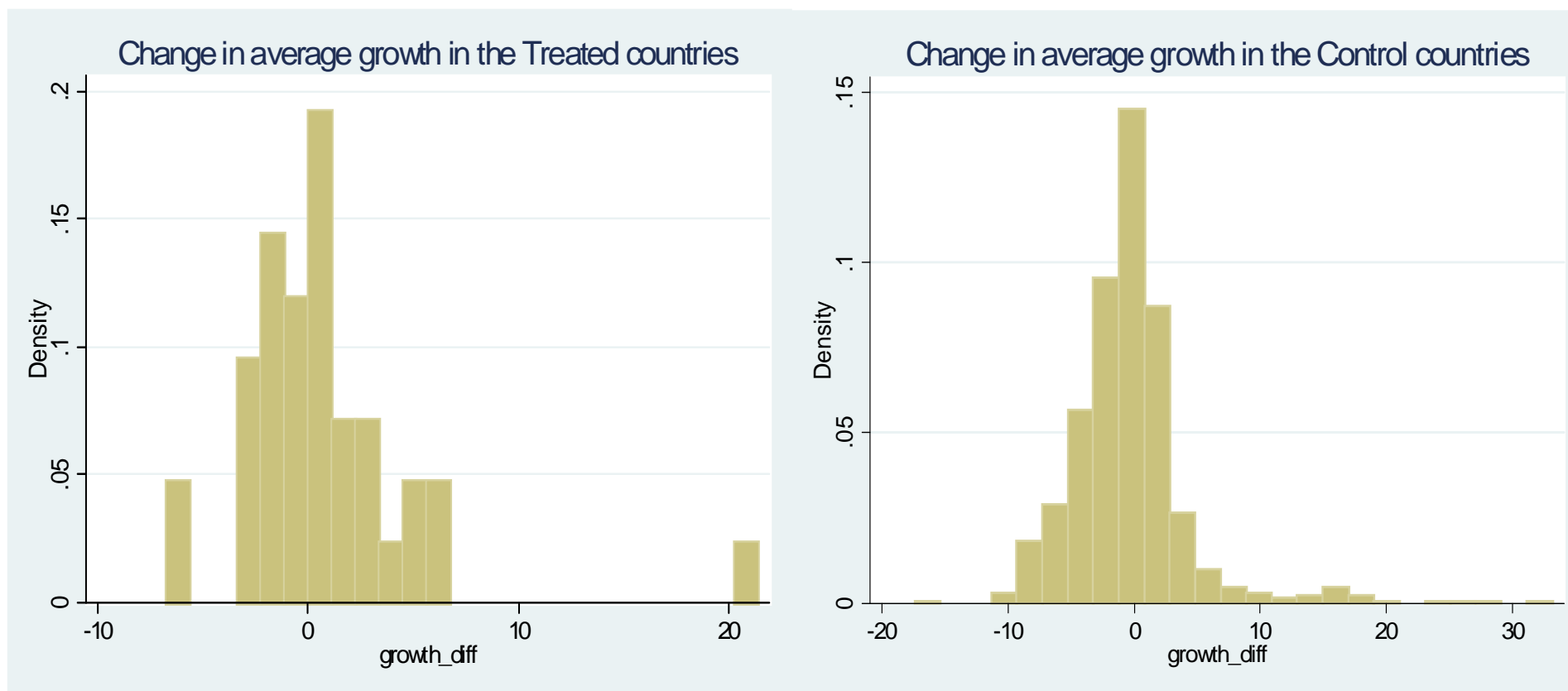
2.a Average effects of D transitions

- Years of Democratic Transitions: prolonged recession
- Then? On average positive effects of D on Y
 $\frac{1}{2}\%$ - 1% yearly, + 13% overtime
- Stronger negative effect if D relapse into A
 -2% yearly, -45% overtime
- Imprecisely estimated

Change in growth after transition to democracy

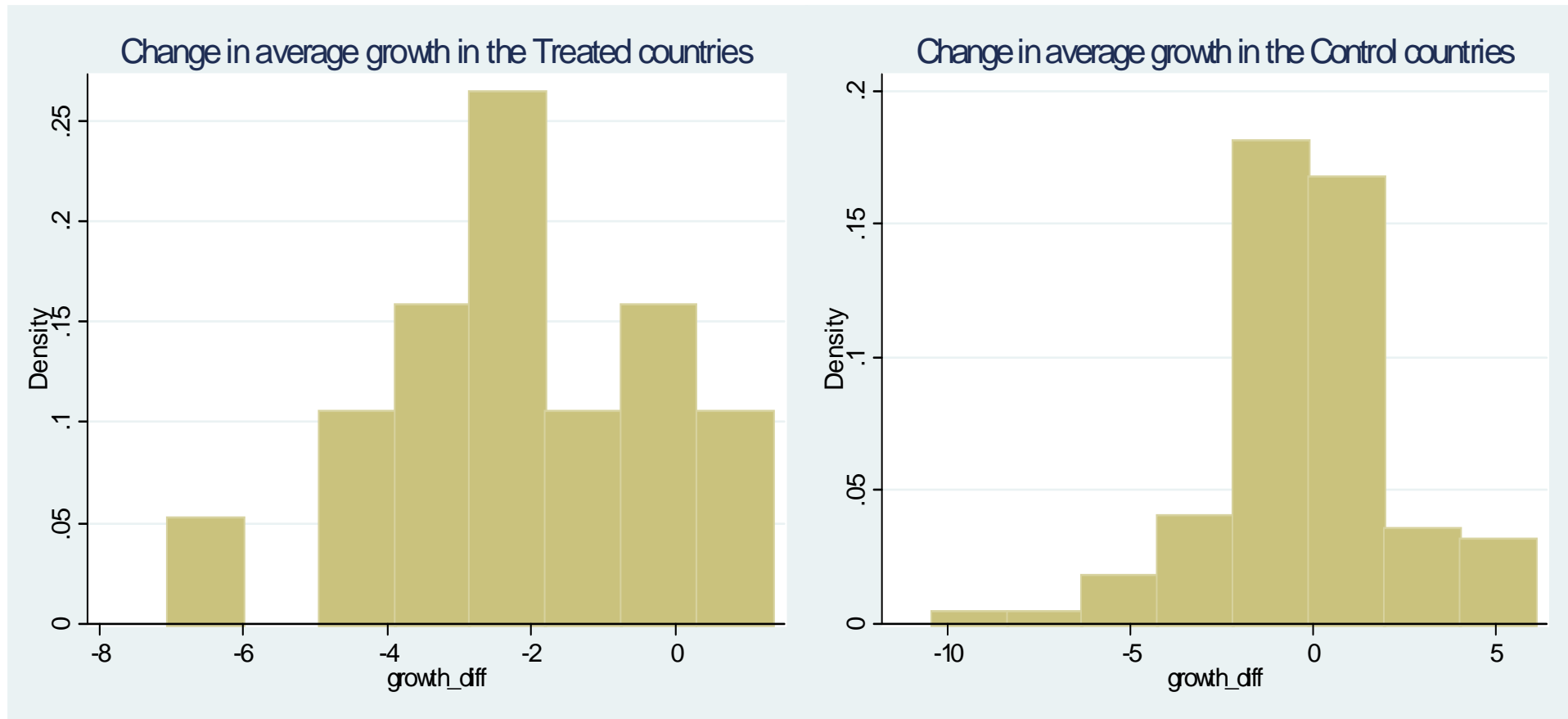
Sample: 1960-2000

Method: Matching based on propensity score



The horizontal axis in each histogram plots the difference between growth after and before reform dates (expressed in percentage points per year)

Change in growth after becoming autocracy



The horizontal axis in each histogram plots the difference between growth after and before transition dates (expressed in percentage points per year)

2.b Sequence of reforms

Economic vs Political liberalizations

- D transitions often preceded or followed by Economic liberalizations
- Are we confounding the effects of the two reforms?
- Does the sequence of reforms matter ?
Is it better to liberalize the economy first, or to democratize first? (China vs Russia)
- Method: Dif in Dif

Table 1 Effects of political and economic reforms on economic growth

	(1) Growth
Democracy	0.75** (0.34)
N. of countries	138
N. of observations	4338

Notes: Robust standard errors in parentheses: * significant at 10%; ** significant at 5%; *** significant at 1%
Control variables: country and year fixed effects, lagged income, dummy variable for wars and lagged wars, dummy variable for former socialist countries in Central and Eastern Europe plus former Soviet Union after 1990, year dummy variables interacted with dummy variables for Latin America, Africa, Asia and Socialist legal origin

Table 1 Effects of political and economic reforms on economic growth

	(1) Growth	(2) Growth
Democracy	0.75** (0.34)	
Liberalization		1.31*** (0.39)
N. of countries	138	134
N. of observations	4338	4492

Table 1 Effects of political and economic reforms on economic growth

	(1) Growth	(2) Growth	(3) Growth
Democracy	0.75** (0.34)		0.81** (0.33)
Liberalization		1.31*** (0.39)	0.92** (0.39)
N. of countries	138	134	130
N. of observations	4338	4492	4229

Table 1 Effects of political and economic reforms on economic growth

	(1) Growth	(2) Growth	(3) Growth	(4) Growth
Democracy	0.75** (0.34)		0.81** (0.33)	0.70* (0.33)
Liberalization		1.31*** (0.39)	0.92** (0.39)	1.22*** (0.43)
Democracy after liberalization				1.62* (0.86)
Liberalization after democracy				-1.71*** (0.62)
N. of countries	138	134	130	130
N. of observations	4338	4492	4229	4229

2.c Effects of D. Constitution

Pres vs Parl

Theoretical and empirical work on existing D

Tradeoff in constitution design

Parl: more inclusive and better at providing public goods

Pres: Stronger checks and balances, less waste and smaller size of govt.

Caveats:

- if well designed
- more fragile democracies? => More at risk of relapse into A?

2.c Effects of D. Constitution

Pres vs Parl

Episodes of D transitions? Confirm previous results

- New Parl D: G/Y up by 5%, New Pres D no such effects
- Economic Liberalizations more likely after new Parl D.
But: Economic Libs less effective if they come after D ?

Overall, Pres D has stronger growth effects than Parl (1-2%)

Caveats:

- Small sample, self selection

Implications

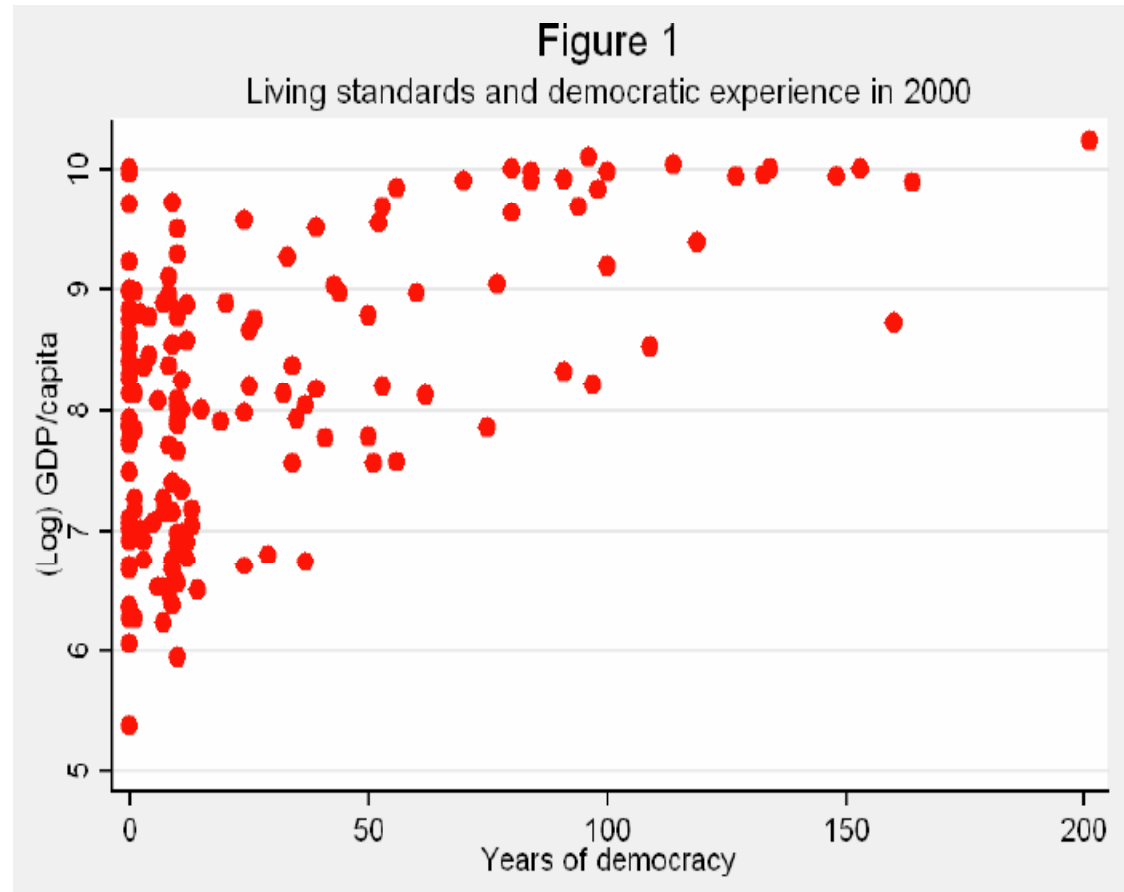
- On average D is good for Y, but large heterogeneity
Details are important
- Pres D associated with smaller govt spending, perhaps less waste
But less inclusive => tradeoff in constitution design
- Sequence is important:
 - First liberalize the economy, then liberalize the political system
History of the European countries
- Liberalizing the economy accelerates D transitions => Dangerous thing to do for an Autocrat...
- Egypt and Tunisia are following the right sequence
- Protection of economic rights, checks and balances, are key

How to explain the big puzzle?

Previous findings:

- On average D is good (A is bad) for growth

⇒ Positive relation
between Y and years
of D experience

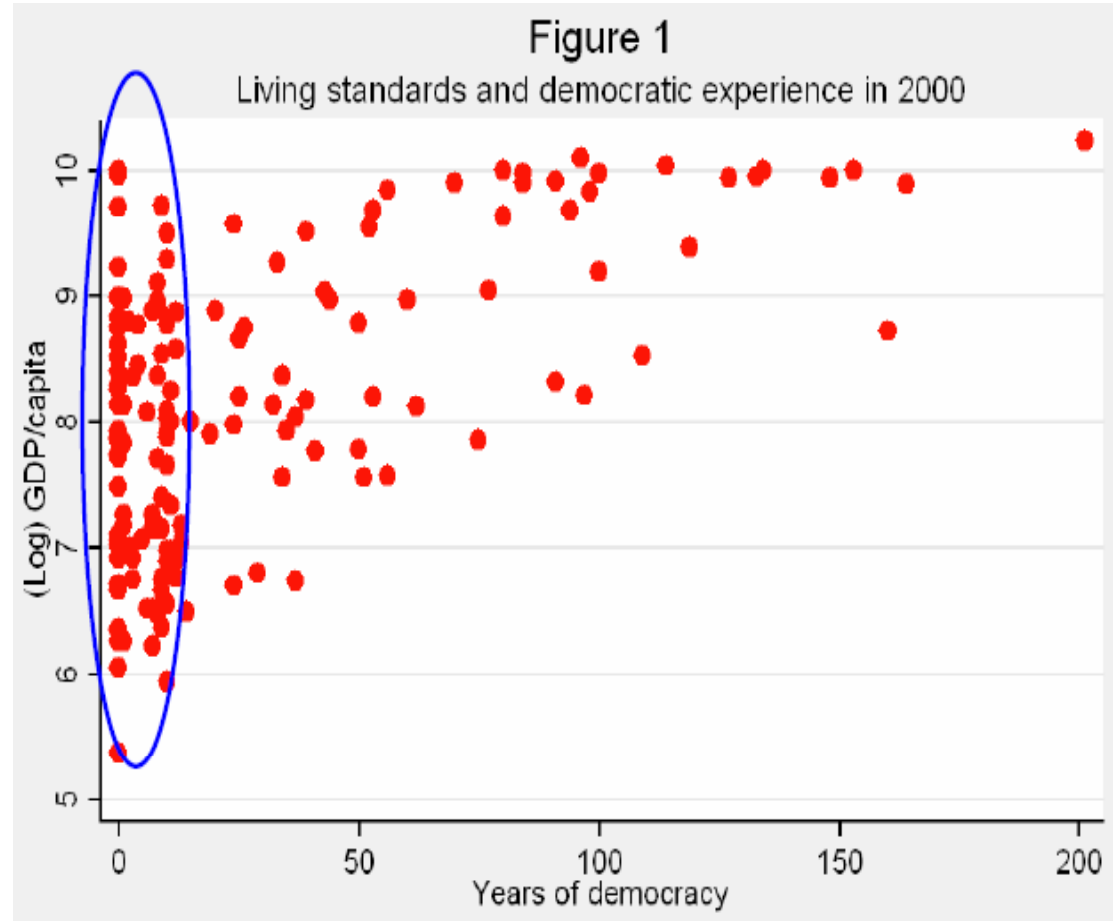


How to explain the big puzzle?

Previous findings:

- Effect of A on growth very heterogeneous
- No effect of Y on A

⇒ Find A at all levels of Y



How to explain the big puzzle?

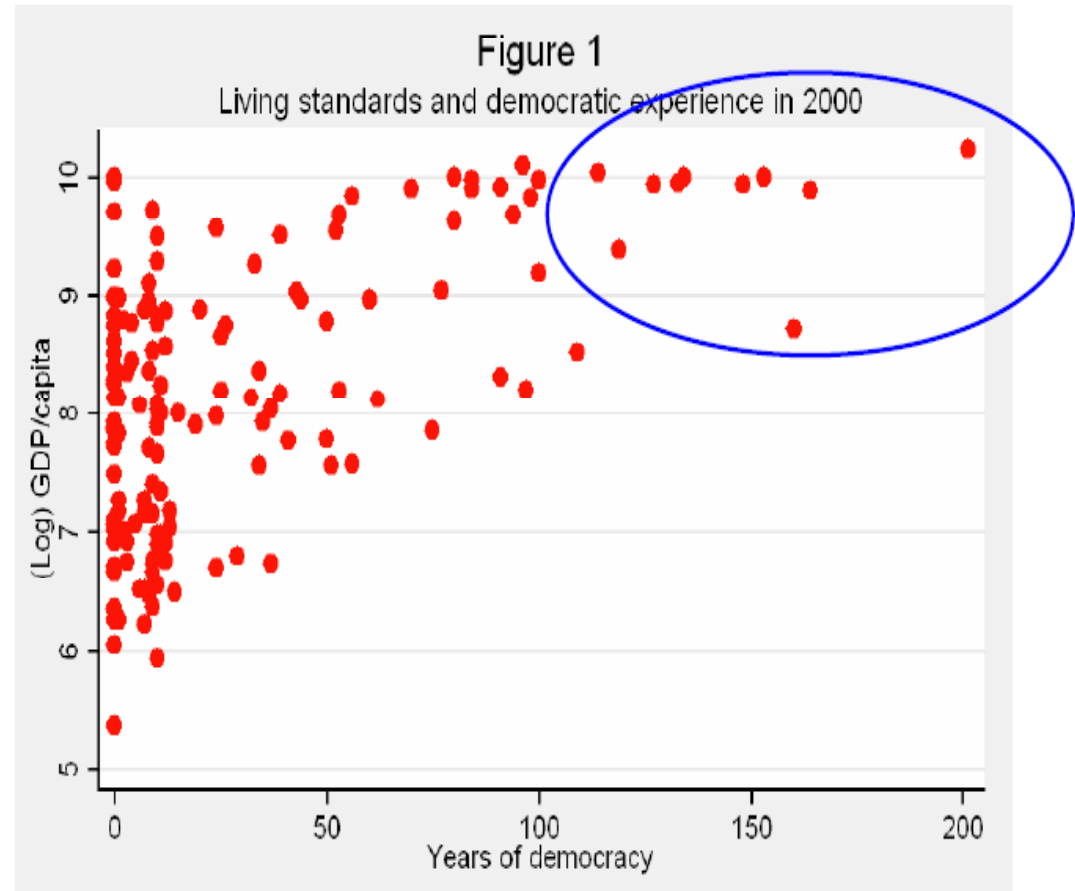
Previous findings:

- Stable D good for growth
- Y and past D help to consolidate D

Virtuous circle

Entry into D => higher Y
=> more stable D
=> positive feedbacks
between Y and D

No country with long D experience is poor



Concluding remarks

Difficult questions, no firm advice yet

But some insights on interactions of D and Y:

- Sequence of Economic / Political liberalizations
D has stronger positive effects if it is born in an open economic environment
- D more stable if:
Higher Y; Surrounded by other D; Past experience with D
- Possibility of virtuous circle

Strong and concrete hope of political and economic progress